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THE WORKS OF

JAMES WILLIAM GILBART, F.R.S.

IN SIX VOLUMES.

VOL. IV.

THE HISTORY AND PRINCIPLES OF BANKING.

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THE

HISTORY AND PRINCIPLES

OF

BANKING.

THE LAWS OF THE CURRENCY, ETC.

BY THE LATE

JAMES WILLIAM GILBART, F.R.S.,

ONE OF THE DIRECTORS OF THE LONDON AND WESTMINSTER BANK, AND FORMERLY GENERAL MANAGER.

LONDON:

BELL & DALDY, 186, FLEET STREET,

AND 6, YORK STREET, COVENT GARDEN.

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NOTICE.

The executors of the late Mr. Gilbart, in placing before the public a reprint of his works, deem it right to state, that no alterations have been made in the original text, beyond the correction of dates, and the omission of some obsolete matter; but that the works are issued in accordance with the provisions of his will, and remain as they were left by the Author.

CONTENTS.

The History and Principles of Banking:—

SECTION		PAGE
I.	The Origin and Progress of Banking	1
II.	The Rise of Banking in England	10
III.	The History of the Bank of England	23
IV.	The London Bankers	77
V.	Country Banks	78
VI.	Joint Stock Banks	83
VII.	Branch Banks	88
VIII.	Banks of Deposit	93
IX.	Banks of Remittance	101
X.	Banks of Circulation	106
XI.	Banks of Discount	118
XII.	Cash Credit Banks	142
XIII.	Loan Banks	147
XIV.	Savings Banks	152

The History of Banking in Ireland 157

The Waterford Literary and Scientific Institution . . . 236

An Inquiry into the Causes of the Pressure of the Money Market during the Year 1839 249

Currency and Banking 251

On the Laws of the Currency in Ireland 359

The Laws of the Currency 386

The Laws of the Currency in Scotland 429

148324

THE

HISTORY AND PRINCIPLES

OF

BANKING.

SECTION I.

THE ORIGIN AND PROGRESS OF BANKING.

An eminent historian observes, that "it is a cruel mortification, in searching for what is instructive in the history of past times, to find that the exploits of conquerors who have desolated the earth, and the freaks of tyrants who have rendered nations unhappy, are recorded with minute and often disgusting accuracy, while the discovery of useful arts, and the progress of the most beneficial branches of commerce are passed over in silence, and suffered to sink into oblivion."* This remark is strictly applicable to the origin and progress of banking. We have but little information as to what kind of banks existed in the earlier ages, or on what system they conducted their business. As most of the nations of antiquity subsisted chiefly on agriculture, they probably had little occasion for banks; for it is only in commercial countries that these institutions have attained to any high degree of prosperity. And as even the commercial nations of antiquity were unacquainted with joint-stock companies, or commercial corporations, and had not discovered the use of paper-money or bills of exchange, the business of a banker, even among them, must have been somewhat different from that of a banker of the present day. The merchants of those early

* Robertson's Historical Disquisition on India, page 46.

times employed as money, gold and silver bullion; and received it and paid it away by weight. It is probable that the merchants would require that the precious metals they received should be of a certain degree of fineness. We read of Abraham* weighing unto Ephron 400 shekels of silver, *current money with the merchant*—a phrase which implies that the money current with the merchant was different from that in ordinary use.

After bullion was superseded by coin, and each nation had a coin of its own, the merchants would necessarily in the course of their business receive coins belonging to different nations, and hence would be applied to by strangers who wished to exchange their own money for the money of the country in which they sojourned. This would take place more particularly in those oriental countries whose inhabitants were accustomed in certain seasons to meet together for the celebration of public festivals. We read in the New Testament † of money-changers who had tables in the Temple of Jerusalem. It is probable they attended for the purpose of giving Jewish money in exchange for those various coins, which persons coming from the neighbouring countries might have brought with them. Whether the business of money-changing was carried on as a separate employment, or united with the general business of a merchant, we are not informed; but it is stated, that the exchangers allowed interest for money lodged in their hands. "Thou wicked and slothful servant, thou oughtest to have put my money to the exchangers, and then at my coming I should have received mine own with usury."‡ From the circumstance of their allowing interest on money, we may infer that they also lent money on interest; otherwise they would have had no use for the money they borrowed. This scanty information forms the whole of our knowledge respecting the mode of banking practised by the ancient Babylonian, Egyptian, and Jewish nations.

With respect to the Bankers of Greece we have more ample details:

* Genesis xxiii. 16. † Matthew xxi. 12. ‡ Matthew xxv. 27.

In Greece the first banks were the temples.

"The wealth and growing estimation of Delphi had also another source, of which information remains only so far as to assure us of the fact with far less explanation of circumstances than for its importance might be desired. In the general insecurity of property in the early ages, and especially in Greece, it was highly desirable to convert all that could be spared from immediate use into that which might more easily be removed from approaching danger. By a compact, understood among men, with this view the precious metals appear to have obtained their early estimation. Gold, then, and silver having acquired their certain value as signs of wealth, a deposit secure against the dangers continually threatening, not individuals only, but every town and state in Greece, would be a great object of the wealthy. Such security offered nowhere in equal amount as in those temples, which belong not to any single state, but were respected by the common religion of the nation. The priesthood, not likely to refuse the charge, would have a large interest in acquiring the reputation of fidelity to it. Thus Delphi appears to have become the great bank of Greece, perhaps before Homer, in whose time its riches seem to have been already proverbial. Such then was found the value of this institution, that when the Dorian conquerors drove so large a part of the Greek nation into exile, the fugitives who acquired new settlements in Asia, established there their own national bank in the manner of that of their former country, recommending it to the protection of the same divinity. The Temple of Apollo, at Branchidæ, became the great depository of the wealth of Ionia."*

Afterwards the temple of Olympia, like that at Delphi, became an advantageous repository for treasure. But although the temples discharged one of the offices of banks, by being places of security, yet as they did not grant interest on the money deposited, they did not supersede banks of deposit established by private individuals. At Athens especially, banking was a flourishing trade.

"The greater part of the Athenians employ their money in trade, but they are not permitted to lend it for any place but Athens. They receive an interest for the use of it which is not fixed by the laws, but stipulated in a contract, deposited either in the hands of a banker, or some friend to both parties. If, for instance, a voyage is to be made to the Cymmerian Bosphorus, the instrument specifies the time of the departure of the vessel, the kind of commodities with which she is to be freighted, the sale which is to be made of them in the Bosphorus, and

* Mitford's 'History of Greece,' vol. i., page 193.

the merchandize which she is to bring back to Athens; and as the duration of the voyage is uncertain, some agree that their money shall not be payable till the return of the vessel, while others, more timid, and contented with a less profit, require that it shall be repaid at the Bosphorus immediately after the sale of the goods carried out; in which case they either themselves repair to the place where they are to receive it, or send thither some person in whom they can confide, and whom they empower to act for them.

"The lender has his security, either on the merchandize or the goods of the borrower; but as the dangers of the sea are in part risked by the former, and the profit of the latter may be very considerable, the interest of money thus lent may rise as high as thirty per cent., more or less, according to the length and hazards of the voyage.

"The usury of which I have spoken is known by the name of maritime; that called landed is more oppressive, and no less variable.

"Those who, without risking the dangers of the sea, wish to derive profit from their money, lend it to bankers at the rate of twelve per cent. per annum, or rather one per cent. for every new moon. But as the laws of Solon do not prohibit those who have money from demanding the most extravagant interest for it, some persons receive more than sixteen per cent., and others, especially among the lower classes of people, exact every day the quarter of the principal. These extortions are not concealed, and cannot be punished, except by the public opinion, which condemns, but does not sufficiently despise those who are guilty of them.

"Commerce increases the circulation of wealth, and this circulation has given birth to the occupation of bankers, which facilitates it still more. A person who is about to make a voyage, or who fears to keep by him too great a sum of money, lodges it in the hands of these bankers, sometimes only as a trust, and without requiring any interest, and sometimes on condition of sharing with them the profit it shall produce. They advance money to generals who go to take on them the command of armies, or other individuals who stand in need of their assistance.

"In the greater part of bargains made by them, no witness is required; they content themselves with entering in a register that such a person has deposited in their hands such a sum, which they must repay to such another, if the former should happen to die. It would sometimes be very difficult to prove that they have received a sum of money, were they to deny it; but if they should expose themselves to such a charge more than once, they would lose the confidence of the public, on which depends their success in the business in which they are engaged.

"By employing the money deposited in their hands, and lending it at a greater interest than they are to pay for it, they amass riches which

gain them friends, whose protection they purchase by assiduous services. But all is lost when, unable to call in their money, they are incapable of fulfilling their engagements. They are then obliged to conceal themselves, and can only escape the severity of justice by surrendering all their remaining property to their creditors.

"Those who wish to exchange foreign money, apply to the bankers, who by different means, as the touchstone and the balance, examine whether they are not adulterated or deficient in weight."*

In a treatise published by Xenophon, upon the Athenian revenue, we meet with the first suggestion for the establishment of a joint-stock bank.

"A very remarkable project, which seems to have been original with Xenophon, next occurs—the establishment of a bank by subscription, open to all the Athenian people. The interest of money, it appears, was enormous at Athens, an unavoidable consequence of the wretched insecurity of person and property. Throughout modern Europe, land is, of all property, esteemed the safest source of income; but in Greece it was held that the surest return was from money lent at interest. For in the multiplied division of Greece into small republics with very narrow territories, the produce of land was continually liable to be carried off or destroyed by an invading enemy, but a moneyed fortune, according to Xenophon's observation, was safe within the city walls. In proportion, then, to the interest of money, and the insecurity of all things, the profits of trade will always be high, and thus numbers would be induced to borrow, even at a high interest. Xenophon therefore proposed, by lending from the public stock, and encouraging commercial adventure by just regulations, to raise a great revenue, and, by the same means, instead of oppressing to enrich individuals. As a corollary, then, to his project, when the amount of the subscription or its profits might allow, he proposed to improve the ports of Athens, to form wharves and docks, to erect halls, exchanges, warehouses, market-houses, and inns; for all which tolls and rents should be paid, and to build ships to be let to merchants. Thus, while numbers of individuals were encouraged and enabled to employ themselves for their private benefits, the whole Athenian people would become one great banking company, from whose profits every member, it was expected, would derive at least an easy livelihood."†

At Rome, the bankers were called *Argentarii*, *Mensarii*, *Numularii*, or *Collybistæ*. The banking-houses or banks were

* See Travels of Anacharsis in Greece, by the Abbé Barthelemy, and the authorities there referred to.

† Mitford's History of Greece, vol. iv., page 22.

called *Taberæ Argentariæ*, or *Mensæ Numulariæ*. Some of these bankers were appointed by the government to receive the taxes, others carried on business on their own account. Their mode of transacting business was somewhat similar to that which is in use in modern times. Into these houses the state or the men of wealth caused their revenues to be paid, and they settled their accounts with their creditors by giving a draft or cheque on the bank. If the creditor also had an account at the same bank, the account was settled by an order to make the transfer of so much money from one name to another. To assign over money or to pay money by a draft, was called *perscribere*, and *rescribere*, the assignment or draft was called *attributio*. These bankers, too, were money-changers. They also lent money on interest, and allowed a lower rate of interest on money deposited in their hands. In a country where commerce was looked upon with contempt, banking could not be deemed very respectable. Among most of the ancient agricultural nations, there was a prejudice against the taking of interest for the loan of money. Hence the private bankers at Rome were sometimes held in disrepute, though those whom the government had established as public cashiers, or receivers-general, as we may term them, held so exalted a rank, that some of them became consuls. *

The Romans had also loan banks, from which the poor citizens received loans without paying interest. We are told that the confiscated property of criminals was converted into a fund by Augustus Cæsar, and that from this fund sums of money were lent without interest, to those citizens who could pledge value to double the amount. The same system was pursued by Tiberius. He advanced a large capital, which was lent for a term of two or three years to those who could give landed security to double the value of the loan. Alexander Severus reduced the market-rate of interest by lending sums of money at a low rate, and by advancing money to poor citizens to purchase lands, and agreeing to receive payment from the produce.

* See Beckmann's History of Inventions, vol. iii., page 19.

After commerce and the arts had revived in Italy, the business of banking was resumed. The word bank is derived from the Italian word *Banco*, a *bench*—the Jews in Lombardy having benches in the market-place for the exchange of money and bills. When a banker failed, his bench was broken by the populace; and from this circumstance we have our word *bankrupt*. Though the States of Venice and Genoa made the most rapid advances in commerce, and established public banks, yet the department of banking appears to have fallen more particularly into the hands of the Florentines. "As the Florentines did not," like the Venetians and the Genoese, "possess any commodious seaport, their active exertions were directed chiefly towards the improvement of their manufactures and domestic industry. About the beginning of the fourteenth century, the Florentine manufacturers of various kinds, particularly those of silk and woollen cloth, appear, from the enumeration of a well-informed historian, to have been very considerable. The connexion which they formed in different parts of Europe, by furnishing them with the productions of their own industry, led them to engage in another branch of trade, that of banking. In this they soon became so eminent, that the money transactions of almost every kingdom in Europe passed through their hands, and in many of them they were entrusted with the collection and administration of the public revenues. In consequence of the activity and success with which they conducted their manufactures and money transactions—the former always attended with certain though moderate profit, the latter lucrative in a high degree, at a period when neither the interest of money nor the premium on bills of exchange were settled with accuracy—Florence became one of the first cities in Christendom, and some of its citizens extremely opulent." * Cosmo di Medici was reckoned the most wealthy merchant ever known in Europe, and in a treaty whereby Lewis XI. engaged to pay Edward IV. fifty thousand crowns annually, it was expressly stipulated that the king of France should engage the partners of the Bank of Medici to become bound

* Robertson's Disquisition on India, page 113.

for the faithful and regular performance of this agreement on the part of himself and his heirs.*

Although the business of banking has probably always been carried on by private individuals before it has been carried on by a public company, yet most countries have found it useful to establish a public or national bank. Some of these banks have been founded for the purpose of facilitating commerce, others to serve the government.

The most ancient bank was that of Venice. It is supposed to have been established in 1157.† The State being involved in debt, through a long and severe war, the public creditors were formed into a corporation, with peculiar privileges, and the debts were allowed to be transferred from one name to another, much in the same way as our public funds, or the stock of our public banks. It was made a particular regulation that all payments of wholesale merchandize, and bills of exchange, shall be in bank money; and that all debtors and creditors shall be obliged, the one to carry their money to the bank, the other to receive their payments in banco, so that payments were made by a simple transfer of stock from one account to the other. This bank may be deemed a wonder for the twelfth century, but requiring much alteration to adapt it to the modes and manners of the nineteenth.‡

So early as the year 1349, the business of banking was carried on by the drapers of Barcelona, who were probably the most wealthy class of merchants in that city. But by an ordinance of the king of Arragon, they were not allowed to commence this branch of trade until they had first given sufficient security. In the year 1401, a public bank was established by the magistrates, and the city funds were responsible for the money placed in the bank. They exchanged money, received deposits and discounted bills of exchange, both for the citizens and for foreigners.§

The bank of Genoa was established in 1407. This bank,

* Macpherson's History of Commerce, vol. i., page 698.

† Anderson's History of Commerce, vol. i., page 156.

‡ See Montefiore's Commercial Dictionary, Article *Bank*.

§ Macpherson's History of Commerce, vol. i., pp. 540, 612.

like that of Venice, owed its origin to the debts of the State. Considerable confusion had arisen from the multitude of loans which the republic had contracted with its citizens. These various loans were now formed into one total amount, and made the capital of the bank. This bank was called the Chamber of St. George, and its management was entrusted to eight directors, elected by the proprietors of the stock. As a security for the debt, the State made over to the bank several cities and territories, among which was the port of Caffa and the little kingdom of Corsica.

The bank of Amsterdam was founded in the year 1609. It was occasioned by the vast quantity of worn and clipped coins then in circulation, in consequence of which the value of the currency was reduced above nine per cent. below that of good money fresh from the mint. The bank received these deficient coins at nearly their intrinsic value, and made all its issues in coin of the standard weight and fineness. At the same time a law was made that all foreign bills of exchange should be paid in bank money. This law raised the value of bills on Holland in foreign countries, and compelled every merchant to keep an account at the bank, in order that he might at all times have legal money to pay his foreign bills. The premium (called the Agio) on bank money was regulated by the market price of gold, and was subject to considerable fluctuations. To prevent the gambling to which these fluctuations gave rise, the bank at length determined to sell bank money for currency at five per cent. agio, and to buy it again at four per cent. From this and other sources of profit the bank is supposed to have gained a considerable revenue. It was the entire property of the city of Amsterdam, and was placed under the direction of four burgomasters, who were changed every year.*

The bank of Amsterdam was the model on which were formed most of the European banks now in existence; but they have varied very considerably from each other, according to the circumstances of the respective countries in which they have been established.

* Adam Smith's Wealth of Nations.

SECTION II.

THE RISE OF BANKING IN ENGLAND.

THE exchanging of money; the lending of money; the borrowing of money; the transmitting of money, are the four principal branches of the business of modern banking, and in most countries they seem to have taken their rise in the order in which they are here named.

MONEY CHANGING.

For several centuries the only coin current in England was made of silver, and the highest denomination was the silver penny. This coin contained about half as much silver as one of our sixpences. There were also silver halfpence and silver farthings, and frequently the silver pennies were cut into halves and quarters to serve the purpose of halfpence and farthings, until laws were made to prohibit the practice. Copper was not coined in England until the year 1609, and then the small leaden tokens previously issued by private individuals were suppressed.

Gold is supposed to have been first coined in England in the year 1344, when Edward III. issued gold nobles, half nobles, and farthing nobles; the noble to pass for 6*s.* 8*d.*, the half noble for 3*s.* 4*d.*, and the farthing noble for 1*s.* 8*d.* This coinage seems to have given rise to the office of Royal Exchanger.

"It was not so easy a matter in the times we are now considering to exchange gold and silver coins for each other as it is at present, and, therefore, Edward III. and several of his successors took this office into their own hands, to prevent private extortion as well as for their own advantage, and they performed it by appointing certain persons, furnished with a competent quantity of gold and silver coins, in London and other towns, to be the only exchangers of money, at the following arte:—When these royal exchangers gave silver coins for a parcel of gold nobles, for example, they gave one silver penny less for each noble than its current value, and when they gave gold nobles for silver coins they took one penny more, or 6*s.* 9*d.* for each noble, by which, in every transaction, they made a profit of 1 1-5th per cent. These royal

exchangers had also the exclusive privilege of giving the current coins of the kingdom in exchange for foreign coins, to accommodate merchant-strangers, and of purchasing light money for the use of the mint. As several laws were made against exporting English coin, the king's exchangers, at the several seaports, furnished merchants and others who were going beyond seas with the coins of the countries to which they were going, in exchange for English money, according to a table which hung up in their office for public inspection. By these various operations they made considerable profits, of which the king had a certain share. The house in which the royal exchanger of any town kept his office was called the *Exchange*, from which it is probable the public structures where merchants meet for transacting business derive their name."*

This institution continued until the middle of the reign of Henry VIII., when it fell into disuse. It was re-established in the year 1627, by Charles I., who then issued the following proclamation :—

"Whereas the exchange of all manner of gold and silver current in moneys or otherwise, as the buying, selling, and exchanging of all manner of bullion, in species of foreign coins, billets, ingots, &c., fine, refined, or allayed howsoever, being fit for our mint, hath ever been and ought to be our sole right, as part of our prerogative, royal and ancient revenue, wherein none of our subjects of whatever trade or quality soever, ought at all, without our special license, to intermeddle, the same being prohibited by divers Acts of Parliament and Proclamations, both ancient and modern. And whereas ourself and divers of our royal predecessors have, for some time past, tolerated a promiscuous kind of liberty to all, but especially to some of the mystery and trade of goldsmiths in London and elsewhere, not only to make the said exchanges, but to buy and sell all manner of bullion, and from thence some of them have grown to that licentiousness, that they have for divers years presumed, for their private gain, to sort and weigh all sorts of money current within our realm, to the end to cull out the old and new moneys, which, either by not wearing or by any other accident, are weightier than the rest, which weightiest moneys have not only been molten down for the making of plate, &c., but even traded in and sold to merchant-strangers, &c., who have exported the same, whereby the consumption of coins has been greatly occasioned, as also the raising of the silver even of our own moneys to a rate above what they are truly current for, by reason whereof no silver can be brought up to our mint but to the loss of the bringers, &c.—For the reforming of all which abuses we have, by the advice of our Privy Council, determined to assume our said right, for our own profit and the good of the realm,

* Henry's History of England, vol. viii., page 347.

and for this end we do now appoint Henry Earl of Holland and his deputies, to have the office of our changes, exchanges, and out-changes whatsoever, in England, Wales, and Ireland.—And we do hereby strictly charge and command that no goldsmith nor other person whatsoever, other than the said Earl of Holland, do presume to change, &c." *

As this measure occasioned some dissatisfaction, the king authorized, in the following year, the publication of a pamphlet, entitled "Cambium Regis, or the Office of his Majesty's Exchanger Royal." In this pamphlet it was attempted to be shown :—

"That the prerogative of exchange of bullion for coin has always been a flower of the Crown, of which instances are quoted from the time of King Henry I. downward. That King John farmed out that office for no smaller a sum than five thousand marks—that the place or office where the exchange was made in his reign was near St. Paul's Cathedral in London, and gave name to the street still called the Old 'Change—that in succeeding reigns there were several other places for those exchanges besides London—that this method continued to Henry the Eighth's time, who suffered his coin to be so far debased that no regular exchange could be made—that the said confusion made way for the London goldsmiths to leave off their proper trade of *goldsmithrie*, *i. e.*, the working and selling of new gold and silver plate, and manufacture, the sole intents of all their charters, and to turn exchangers of plate and foreign coins for our English coins, although they had no right to buy any gold or silver for any other purpose than for their manufacture aforesaid, neither had any other person but those substituted by the Crown a right to buy the same. The king, therefore, has now resumed this office, not merely to keep up his right so to do, but likewise to prevent those trafficking goldsmiths from culling and sorting all the heavy coin, and selling the same to the mint of Holland, which gained greatly thereby, or else by melting those heavy coins down for making of plate, witness the pieces of thirteenpence-halfpenny, old shillings of Queen Elizabeth, ninepenny and fourpenny-halfpenny pieces, which, being weighty moneys, none of them were now to be met with, whereby they have raised the price of silver to twopence per ounce above the value of the mint, which thereby has stood still ever since the eleventh of King James—that for above thirty years past it has been the usual practice of those exchanging goldsmiths to make their servants run every morning from shop to shop to buy up all weighty coins for the mints of Holland and the East countries, whereby the king's mint has stood still."

Not only the Goldsmiths' Company of London, but the

* Anderson's History of Commerce, vol. ii., page 324.

lord mayor, court of aldermen, and common council, petitioned against the revival of the office of the Royal Exchanger. They were not, however, successful, and on a second application of the Goldsmiths' Company, the king told them "to trouble him no farther, since his right to the office was undoubtedly clear." After the death of Charles I. this office was not continued, and the business of money-changing fell again into the hands of the Goldsmiths. Their shops were situated chiefly on the south row of Cheapside, and extended from the street called the Old 'Change unto Bucklersbury.*

MONEY-LENDING.

That part of the business of banking which consists in the lending of money lay, during the middle ages, under severe restraints. The taking of interest for the loan of money was deemed sinful, and stigmatized with the name of usury. This opinion appears to be wholly unwarranted, either by the principles of natural equity, or the enactments of the Mosaic law. "The taking of interest from Israelites was forbidden by Moses; not, however, as if he absolutely and in all cases condemned the practice, for he expressly permitted interest to be taken from strangers, but out of favour to the poorer classes of the people. The farther we go back towards the origin of nations, the poorer do we commonly find them, and the more strangers to commerce; and where this is the case, people borrow, not with a view to profit, but from poverty, and in order to procure the necessaries of life; and there it must be, no doubt, a great hardship to give back more than has been got. The taking of interest from *strangers*, Moses has not only nowhere forbidden, but even expressly authorized it. Hence it is clear that he does by no means represent interest as in itself sinful and unjust. Any such prohibition of interest in our age and country would, without doubt, be unjust towards lenders, and destructive to trade of every description. Among all the remnants of ancient laws, it would be difficult to find one which, in the present state of

* See Maitland's History of London, page 826.

society, it would be more foolish and hurtful to revive and enforce. It could only suit a state so constituted as was that of the Israelites by Moses."* The taking of interest for the loan of money was first prohibited in England by Edward the Confessor. This law, however, appears to have become obsolete; for, in a council held at Westminster, in the year 1126, usury was prohibited only to the clergy, who, in case they practised it, were to be degraded; and in another Council, held twelve years afterwards, it was decreed, "that such of the clergy as were usurers and hunters after sordid gain, and for the public employments of the laity, ought to be degraded." The earliest mention we find in the English history, of a certain yearly allowance for the usury or interest of money, is in the year 1199, the tenth and last year of Richard the First. In this case the rate of interest was 10 per cent. This appears to have been the ordinary or market-rate of interest from that period until the time of Henry VIII., but there are many instances on record of a much higher rate of interest being taken, especially by the Jews and the Lombards, who, in those times, were the principal money-lenders. The exorbitant interest taken by them, is supposed by eminent writers to have been the effect of the prohibition of usury.

The Jews, who were previously famous in foreign countries for their "egregious cunning in trade and in the practice of brokerage," arrived in England about the time of the Conquest, and soon became remarkable for wealth and usury. "The prejudices of the age," says Hume, "had made the lending of money on interest pass by the invidious name of usury; yet the necessity of the practice had still continued it, and the greater part of that kind of dealing fell everywhere into the hands of the Jews, who being already infamous on account of their religion had no honour to lose, and were apt to exercise a profession odious in itself by every kind of rigour, and even sometimes by rapine and extortion. The industry and frugality of this people had put them in possession of all the ready money, which the idleness and profusion common to the English with the European nations enabled

* See Michaelis's Commentaries on the Laws of Moses, vol. ii., pp. 324 to 342.

them to lend at exorbitant and unequal interest."* Henry III. prohibited the Jews taking more than twopence a week for every 20*s.* they lent to the scholars at Oxford.† This is after the rate of 43*l.* 6*s.* 8*d.* per cent. per annum. Peter of Blois, Archdeacon of Bath, writes thus to his friend the Bishop of Ely, "I am dragged to Canterbury to be crucified by the perfidious Jews amongst their other debtors, whom they ruin and torment with usury. The same sufferings await me also at London, if you do not mercifully interpose for my deliverance. I beseech you therefore, O most Rev. Father and most loving friend, to become bound to Samson the Jew for 6*l.* which I owe him, and thereby deliver me from that cross."‡ The wealth and the rapacity of the Jews occasioned the most cruel proceedings against them on the part of both the populace and the Government. These persecutions terminated by their expulsion from England in the year 1290. They were not re-admitted until the time of Oliver Cromwell. On this occasion the Protector summoned an assembly to debate two questions, 1st, whether it were lawful to tolerate the Jews; and 2nd, if it were, on what conditions? The assembly consisted of two judges, seven citizens of London, among whom were the lord mayor and the sheriffs, and fourteen divines. The judges considered toleration merely as a point of *law*, and declared they knew of no law against it, and that if it were thought useful to the State, they would advise it. The citizens viewed it in a *commercial* light, and they were divided in their opinions about its utility. Both these, however, despatched the matter briefly, but the divines violently opposed it by text after text for four whole days. Cromwell was at length so weary that he told them he had hoped they would have thrown some light on the subject to direct his conscience, but, on the contrary, they had rendered it more obscure and doubtful than before; that he desired, therefore, no more of their reasonings, but lest he should do anything rashly, he begged a share in their prayers.

* Hume's History of England, chap. 10.

† Henry's History of England, vol. vi., page 280.

‡ Ibid.

Previous to the expulsion of the Jews, the Lombards had settled in England, and they soon became as great usurers as the Jews themselves. By *Lombards* were generally understood Italian merchants from the four republics of Genoa, Lucca, Florence, and Venice. The foreign commerce of those times was usually carried on by companies of merchants who, on payment of certain duties, were invested by the government with a monopoly of the trade to those countries of which they were natives, and they also possessed peculiar privileges. "As the Lombards engrossed the trade of every kingdom in which they settled, they soon became masters of its cash. Money of course was in their hands not only a sign of the value of their commodities, but became an object of commerce itself. They dealt largely as bankers. In an ordonnance A.D. 1295, we find them styled *mercatores* and *campsores*. They carried on this as well as other branches of their commerce with somewhat of that rapacious spirit which is natural to monopolizers who are not restrained by the concurrence of rivals: an opinion which prevailed in the middle ages was, however, in some measure the cause of their exorbitant demands, and may be pleaded in apology for them. Commerce cannot be carried on with advantage, unless the persons who lend a sum are allowed a certain premium for the use of their money, as a compensation for the risk which they run in permitting another to traffic with their stock. This premium is fixed by law in all commercial countries, and is called the legal interest of money. But the Fathers of the Church absurdly applied the prohibitions of usury in Scripture to the payment of legal interest, and condemned it as a sin. The schoolmen, misled by Aristotle, whose sentiments they followed, implicitly and without examination adopted the same error and enforced it. Thus the Lombards found themselves engaged in a traffic which was deemed criminal and odious. They were liable to punishment if detected. They were not satisfied, therefore, with that moderate premium which they might have claimed, if their trade had been open and authorized by law. They exacted a sum proportional to the danger and infamy of a discovery. Accord-

ingly, we find it was usual for them to demand twenty per cent. for the use of money in the thirteenth century. About the beginning of that century the Countess of Flanders was obliged to borrow money in order to pay her husband's ransom. She procured the sum requisite, either from Italian merchants, or from Jews. The lowest interest which she paid to them was above twenty per cent., and some of them exacted near thirty. In the fourteenth century, A.D. 1311, Philip IV. fixed the interest which might be legally exacted in the fairs of Champagne at twenty per cent. The interest of money in Arragon was somewhat lower. James I., A.D. 1242, fixed it by law at eighteen per cent. As late as the year 1490, it appears that the interest of money in Placentia was at the rate of forty per cent. This is the more extraordinary, because at that time the commerce of the Italian states was become considerable. It appears from Lud. Guicciardini, that Charles V. had fixed the rate of interest in his dominions in the Low Countries at twelve per cent., and at the time when he wrote, about the year 1560, it was not uncommon to exact more than that sum. He complains of this as exorbitant, and points out its bad effects both on agriculture and commerce. This high interest on money is alone a proof that the profits on commerce were exorbitant. The Lombards were also established in England in the thirteenth century, and a considerable street in the city of London still bears their name. They enjoyed great privileges, and carried on an extensive commerce, particularly as bankers."*

The English monarchs frequently borrowed money of the Lombards, as well as of other public bodies and of private individuals. The companies of foreign merchants made advances of money, which were repaid by the duties on their merchandise. The oldest and wealthiest of these companies, the Steel-Yard Company, was a kind of bank to our kings, whenever they wanted money on any sudden emergency, but the company was sure to be well paid in the end for such assistance.†

* Robertson's History of Charles V., vol. i., page 257.

† Anderson's History of Commerce, vol. ii., page 192.

In the year 1546, the taking of interest for money was made legal in England, and the rate was fixed at ten per cent. This Act was repealed in the year 1552, but it was re-enacted in 1571. The legal rate of interest was reduced to eight per cent. in 1624, and to six per cent. in 1651. In the year 1714, it was reduced to five per cent.* After the taking of interest was sanctioned by law, the term USURY, which was previously applied to interest in general, became limited, to denote a rate of interest higher than that which the law allowed.

MONEY BORROWING.

That part of the business of banking which consists in the borrowing of money, with a view of lending it again at a higher rate of interest, does not appear to have been carried on by bankers until the year 1645, when a new era occurred in the history of banking. The goldsmiths, who were previously only money-changers, now became also money-lenders. They became also money-borrowers, and allowed interest on the sums they borrowed. They were agents for receiving rents. They lent money to the king on the security of the taxes. The receipts they issued for the money lodged at their houses, circulated from hand to hand, and were known by the name of "Goldsmiths' notes." These may be considered as the first kind of bank notes issued in England. The following account of these banking goldsmiths is taken chiefly from Anderson's 'History of Commerce.'†

When our merchants became enriched by commerce, they wished for a place of security in which they might deposit their wealth. Hence they usually sent their money to the mint in the Tower of London, which became a sort of bank. The merchants left their money here when they had no occasion for it, and drew it out as they wanted it. But in 1640, King Charles I. took possession of 200,000*l.* of the merchants' money that had been lodged in the mint, and from that period the merchants kept their money in their own houses,

* Since repealed. † Vol. ii., page 402.

under the care of their servants and apprentices. On the breaking out of the civil war between Charles I. and the Parliament, it became very customary for the apprentices to rob their masters, and then run away and join the army. As the merchants could now place no confidence either in the public authorities or in their own servants, they were under the necessity of employing bankers.

These bankers were the goldsmiths. Previous to this period, the business of the goldsmiths was similar to what it is in our own time. They bought and sold plate and foreign coins; they procured gold to be coined at the mint, and supplied refiners, plate-makers, and others, with the precious metals. To deal in gold and silver bullion to any large extent, implies the possession of considerable wealth; and as all the money in the country then consisted of gold and silver coin, it was natural enough that the goldsmiths should become the bankers of those who had money for which they had no immediate use.

An account of the bankers of those days is related in a curious pamphlet, published in the year 1676, and entitled, 'The mystery of the new-fashioned Goldsmiths or Bankers discovered.' The author observes:—

"That this new banking business soon grew very considerable." "It happened," says he, "in those times of civil commotion, that the Parliament, out of plates and old coins brought into the mint, coined seven millions into half-crowns; and there being no mills then in use at the mint, this new money was of a very unequal weight, sometimes twopence and threepence difference in an ounce, and most of it was, it seems, heavier than it ought to have been, in proportion to the value in foreign parts. Of this the goldsmiths made naturally the advantage usual in such cases, by picking out or culling the heaviest, and melting them down and exporting them.

"Moreover, such merchants' servants as still kept their masters' running cash, had fallen into a way of clandestinely lending the same to the goldsmiths at fourpence per cent. per diem, who, by these and such-like means, were enabled to lend out great quantities of cash to necessitous merchants and others, weekly or monthly, at high interest, and also began to discount the merchants' bills at the like or higher interest.

"Much about the same time, the goldsmiths (or new-fashioned bankers) began to receive the rents of gentlemen's estates remitted to

town, and to allow them and others who put cash into their hands some interest for it, if it remained but a single month in their hands, or even a lesser time. This was a great allurement for people to put money into their hands, which would bear interest till the day they wanted it; and they could also draw it out by one hundred pounds or fifty pounds, &c., at a time, as they wanted it, with infinitely less trouble than if they had lent it out on either real or personal security.

"The consequence was, that it quickly brought a great quantity of cash into their hands, so that the chief or greatest of them were now enabled to supply Cromwell with money in advance, on the revenues, as his occasion required, upon great advantages to themselves.

"After the Restoration, King Charles II. being in want of money, the bankers took ten per cent. of him barefacedly and by private contracts; on many bills, orders, tallies, and debts of that king, they got twenty, sometimes thirty per cent., to the great dishonour of the government.

"This great gain induced the goldsmiths more and more to become lenders to the king, to anticipate all the revenue, to take every grant of Parliament into pawn as soon as it was given; also to outvie each other in buying and taking to pawn bills, orders, and tallies, so that in effect all the revenue passed through their hands."

The "new-fashioned bankers" were also attacked by Sir Josiah Child, in his 'New Discourse of Trade,' in the following terms:—

"And principally this seeming scarcity of money proceeds from the trade of bankering, which obstructs circulation, advanceth usury, and renders it so easy, that most men, as soon as they can make up a sum of from 50*l.* to 100*l.*, send it in to the goldsmith, which doth and will occasion, while it lasts, that fatal pressing necessity for money visible throughout the whole kingdom, both to prince and people.

"A seventh accidental reason why land doth not sell at present at the rate it naturally should in proportion to the legal interest, is that innovated practice of *bankers* in London, which hath more effects attending it than most I have conversed with have yet observed; but I shall here take notice of that only which is to my present purpose, viz.:—

"The gentlemen that are bankers, having a large interest from his Majesty for what they advance upon his Majesty's revenue, can afford to give the full legal interest to all persons that put money into their hands, though for never so short or long a time, which makes the trade of usury so easy and hitherto safe, that few, after having found the sweetness of this lazy way of improvement (being by continuance and success grown to fancy themselves secure in it), can be led (there being neither ease nor profit to invite them) to lay out their money in land, though at fifteen years' purchase; whereas before this way of private

banking came up, men that had money were forced often times to let it lie dead by them until they could meet with securities to their minds, and if the like necessity were now of money lying dead, the loss of use for the dead time being deducted from the profit of six per cent. (*communibus annis*) would in effect take off 1*l.* per cent. per annum of the profit of usury, and consequently incline men more to purchase lands, because the difference between usury and purchasing, would not, in point of profit, be so great as now it is, this new invention of cashiering having, in my opinion, clearly bettered the usurer's trade one or two per cent. per annum. And that this way of leaving money with goldsmiths hath had the aforesaid effect, seems evident to me from the scarcity it makes of money in the country; for the trade of bankers being only in London, doth very much drain the ready money from all other parts of the kingdom." *

In the year 1667 occurred the first RUN of which we have any account in the history of banking. The business of the new-fashioned bankers had increased so fast, and they had become so numerous, that their trade was supposed to be at its height in this year; when, during the time that a treaty of peace was under consideration, the Dutch fleet sailed up the Thames, blew up the fort of Sheerness, set fire to Chatham, and burned four ships of the line. This disaster occasioned great alarm in London, particularly among those who had money in their bankers' hands, as it was imagined that the king would not be able to repay the bankers the money they had lent him. To quiet the fears of the people, the king issued a proclamation, declaring that the payments to the bankers should be made at the Exchequer the same as usual.

In 1672, five years afterwards, a much greater calamity befel the bankers: for King Charles II. shut up the Exchequer, and would not pay the bankers either the principal or the interest of the money which he had borrowed. The amount then due by the king was 1,328,526*l.*, which he had borrowed of the bankers at eight per cent., and which he never repaid.

The mode in which the bankers transacted their loans with the king was this: as soon as the parliament had voted to the king certain sums of money out of particular taxes, the

* Page 45.

bankers advanced at once the money voted by the parliament, and were repaid in weekly payments at the Exchequers as the taxes were received. The mode of making the repayments and the rate of interest were agreed upon at the time of making the loan.

The shutting up of the Exchequer occasioned great distress among all classes of the people. Persons not in trade had then no way of employing their money with advantage but by placing it out at interest in the hands of a banker. Hence, not merchants only, but widows, orphans, and others, became suddenly deprived of the whole of their property. They came in crowds to the bankers, but could obtain neither the principal nor the interest of the money they had deposited.

The clamour became so great, that the king granted a patent to pay six per cent. interest out of his hereditary excise; but he never paid the principal. But, about forty years afterwards, the parliament made arrangements by which the debt was discharged.

The business of banking remained entirely in the hands of the new-fashioned bankers until the establishment of the Bank of England, in the year 1694.

The TRANSMISSION OF MONEY was in ancient times effected by sending a messenger with the coin. During the middle ages, it was accomplished by means of bills of exchange, which were purchased by merchants. Ultimately, a class of persons carried on this kind of traffic, and purchased or sold bills to suit the convenience of parties who wished to deal with them. The pecuniary transactions of independent nations are still adjusted in the same way. But the transmission of money from one part of the country to another part, is more frequently effected upon the principle of transfers, without the passing of any bill. I have explained this mode of operation in my 'Practical Treatise on Banking.'

SECTION III.

THE HISTORY OF THE BANK OF ENGLAND.

The Bank of England was first projected by Dr. Hugh Chamberlain, but the plan actually adopted was proposed by Mr. William Paterson. The object was to raise money for the use of the government. After the scheme had received the sanction of the ministry, it was brought before the parliament. Here it underwent a long and violent discussion. One party expatiated upon the national advantages that would accrue from such a measure; they said it would rescue the nation out of the hands of extortioners and usurers, lower interest, raise the value of land, revive and establish public credit, extend the circulation, consequently improve commerce, facilitate the annual supplies, and connect the people more closely with the government. The opposition party affirmed that it would become a monopoly, and engross the whole money of the kingdom; that as it must infallibly be subservient to government views, it might be employed for the worst purposes of arbitrary power; that instead of assisting, it would weaken commerce, by tempting people to withdraw their money from trade and employ it in stock-jobbing; that it would produce a swarm of brokers and jobbers to prey upon their fellow-creatures, encourage fraud and gambling, and thus corrupt the morals of the nation.* Notwithstanding these objections, the Act passed both houses of parliament, and received the royal assent. The following observations upon the establishment of the Bank of England, are taken from Bishop Burnet's 'History of his Own Times:'—

"Some thought a bank would grow to be a monopoly, all the money in England would come into their hands, and they would, in a few years, become masters of the wealth and stock of the nation; but those that were for it argued that the credit it would have must increase trade, and the circulation of money, at least in bank notes. It was visible that all the enemies of the government set themselves against it

* See Smollett's History of England, chap. iv.

with such a vehemence of zeal that this alone convinced all people that they saw the strength that our affairs would receive from it. I had heard the Dutch often reckon up the great advantages they had from their banks; and they concluded that as long as England continued jealous of the government, a bank could never be settled among us, nor gain credit enough to support itself; and upon that, they judged that the superiority in trade must still lie on their side.

"The advantages the king and all concerned in tallies had from the bank were soon so sensibly felt that all people saw into the secret reasons that made the enemies of the constitution set themselves with so much earnestness against it."

The Act of Parliament by which the bank was established, is entitled, "An Act for granting to their Majesties several duties upon tonnage of ships and vessels, and upon beer, ale, and other liquors, for securing certain recompenses and advantages in the said Act mentioned, to such persons as shall voluntarily advance the sum of fifteen hundred thousand pounds towards carrying on the war with France." After a variety of enactments relative to the "duties upon tonnage of ships and vessels, and upon beer, ale, and other liquors," the Act authorizes the raising of 1,200,000*l.* by voluntary subscription, the subscribers to be formed into a corporation, and be styled "The Governor and Company of the Bank of England." The sum of 300,000*l.* was also to be raised by subscription, and the contributors to receive instead annuities for one, two, or three lives. Towards the 1,200,000*l.* no one person was to subscribe more than 10,000*l.* before the first day of July next ensuing, nor at any time more than 20,000*l.* The corporation were to lend their whole capital to government, for which they were to receive interest at the rate of eight per cent. per annum, and 4,000*l.* per annum for management; being 100,000*l.* per annum in the whole. The corporation were not allowed to borrow or owe more than the amount of their capital, and if they did so the individual members became liable to the creditors in proportion to the amount of their stock. The corporation were not to trade in any "goods, wares, or merchandize whatsoever;" but they were allowed to deal in bills of exchange, gold or silver bullion, and to sell any goods, wares, or merchandize upon

which they had advanced money, and which had not been redeemed within three months after the time agreed upon.

The whole subscription having been filled in ten days, a charter was issued on the 27th day of July, 1694.

The charter declares—

"That the management and government of the corporation be committed to the governor, deputy-governor, and twenty-four directors, who shall be elected between the 25th day of March and the 25th day of April each year, from among the members of the company duly qualified.

"That no dividend shall at any time be made by the said governor and company, save only out of the interest, profit, or produce arising out of the said capital, stock, or fund, or by such dealing as is allowed by Act of Parliament.

"They must be natural born subjects of England, or naturalized subjects; they shall have in their own name and for their own use, severally, viz., the governor at least 4,000*l.*, the deputy-governor 3,000*l.*, and each director 2,000*l.*, of the capital stock of the said corporation.

"That thirteen or more of the said governors or directors (of which the governor or deputy-governor shall be always one), shall constitute a court of directors for the management of the affairs of the company, and for the appointment of all agents and servants which may be necessary, paying them such salaries as they may consider reasonable.

"Every elector must have, in his own name and for his own use, 500*l.* or more, capital stock, and can only give one vote; he must, if required by any member present, take the oath of stock, or the declaration of stock if it be one of those people called Quakers.

"Four general courts to be held in every year, in the months of September, December, April, and July. A general court may be summoned at any time, upon the requisition of nine proprietors duly qualified as electors.

"The majority of electors in general courts have the power to make and constitute by-laws and ordinances for the government of the corporation, provided that such by-laws and ordinances be not repugnant to the laws of the kingdom, and be conformed and approved, according to the statutes in such case made and provided."

1694. Aug. 8. The rate of discount charged on foreign bills was six per cent., which was the highest legal interest. Aug. 30. The bank discounted foreign bills at four and a half per cent.; and Oct. 24, the discount on inland bills was six per cent.

1695. Jan. 16. The following rates of interest were

charged at the bank: foreign bills, having three months to run, six per cent.; but to those who keep accounts at the bank, foreign bills were discounted at three per cent., and inland bills at four and a half per cent. May 19. Running notes and bills were discounted at three per cent. May 6. The following advertisement appeared in the 'London Gazette:'—"The Court of Directors of the Bank of England give notice, that they will lend money on plate, lead, tin, copper, steel, and iron, at four per cent. per annum."

1697. Bank notes were from fifteen to twenty per cent. discount. During the recoinage in 1696, the bank had issued their notes in exchange for the clipped and deficient coin previously in circulation, and they were not able to procure from the mint a sufficient quantity of the new coins to discharge the notes presented to them for payment. This compelled them to make two calls of twenty per cent. each upon their stockholders. They paid some of their notes by bills, bearing interest at six per cent. They also advertised, that while the silver was recoining, "such as think it fit, for their convenience, to keep an account in a book with the bank, may transfer any sum under five pounds from his own to another man's account."

Exchequer tallies and orders for payment having, in 1696, been at a discount of forty, fifty, and sixty per cent., and bank notes at a discount of twenty per cent., the bank was empowered to receive subscriptions for the enlargement of their stock; four-fifths in tallies and orders, and the remaining one-fifth in bank notes. The sum subscribed was 1,001,171*l.* 10*s.*, which, with the original capital of 1,200,000*l.*, raised the capital to the sum of 2,201,171*l.* 10*s.*

The bank charter was extended or renewed until the expiration of twelve months, notice to be given after the first day of August, 1710, and until payment by the public to the bank of the demand therein specified; being an extension or renewal for five years (8 and 9 William III. c. 20). It was also enacted, that the "common capital and principal stock, and also the real fund of the governor and company, or any profit or produce to be made thereof, should be exempted

from any rates, taxes, assessments, or impositions whatever, during the continuance of the bank;" and that the forgery of the company's seal, or of any of their notes or bills, should be felony without benefit of clergy. The dividend on bank stock this year was nine per cent.

1704. Feb. 28. Foreign bills *made payable at the bank* were charged discount at the rate of four per cent., but if not payable at the bank they were charged five per cent.

1707. The subscription of 1,001,171*l.* 10*s.*, raised in the year 1697, was restored. This reduced the bank capital to the original sum of 1,200,000*l.*

1708. The bank charter was extended or renewed until the expiration of twelve months' notice, to be given after the first day of August, 1732, and until payment by the public to the bank of the demands therein specified; being an extension or renewal of the said charter for twenty years (7 Anne, c. 7). By this Act it is provided, "That during the continuance of the said corporation of the Governor and Company of the Bank of England, it shall not be lawful for any body politic or corporate whatsoever, created or to be created (other than the said Governor and Company of the Bank of England), or for any other persons whatsoever, united or to be united in covenants or partnership, *exceeding the number of six persons*, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills or notes, payable at demand, or at a less time than six months from the borrowing thereof."

From this year until the year 1729, the annual dividends varied from nine to five and a half per cent.

1709. In this year there was a new subscription of 1,001,171*l.* 10*s.*, another of 2,201,171*l.* 10*s.*, and a call upon the proprietors of fifteen per cent., 656,204*l.* 1*s.* 9*d.*; altogether making the total capital of the bank, 5,058,547*l.* 1*s.* 9*d.* This increase of capital became necessary, from the bank having in the preceding year lent the government 400,000*l.* without interest, and agreed to cancel one million and a half exchequer bills in their possession, amounting, with interest, to 1,775,027*l.* 17*s.* 10½*d.*

1710. A further call of 501,448*l.* 12*s.* 11*d.*, which increased the bank capital to 5,559,995*l.* 14*s.* 8*d.*

The interest on foreign bills raised from four to five per cent., the same as the inland bills.

1713. The bank charter was extended or renewed until the expiration of twelve months' notice, to be given after the first day of August, 1742, and until payment by the public to the bank, of the demands therein specified; being an extension or renewal of the said charter for ten years (12 Anne, Stat. I. c. ii.) In consideration of receiving this privilege, the bank undertook to circulate 1,200,000*l.* in exchequer bills. In this year the legal rate of interest was reduced from six to five per cent.

1716. July 26. The bank rate of discount on foreign and inland bills reduced to four per cent.

1717. The bank cancelled 2,000,000*l.* exchequer bills and received interest from the government at five per cent. on the amount.

1718. Subscriptions for government loans were first received at the bank. From this period the government have found it more convenient to employ the bank as their agents in all operations of this nature, than to transact them at the treasury or the exchequer. The bank, becoming by degrees more closely connected with the government, began to make advances of money in anticipation of the land and malt taxes, and upon exchequer bills and other securities.

1719. April 30. The rate of discount at the bank upon bills and notes was raised from four to five per cent.

1720. The South Sea Bubble commenced April 7.

"The directors opened their books for a subscription of one million, at the rate of 300*l.* for every 100*l.* capital. Persons of all ranks crowded to the house in such a manner, that the first subscriptions exceeded two millions of original stock. In a few days this stock advanced to 340*l.*, and the subscriptions were sold for double the price of the first payment. The infatuation prevailed till the 8th day of September, when the stock began to fall. Then did some of the adventurers awake from their delirium. The number of the sellers daily increased. On the 29th day of the month, the stock had sunk to one hundred and fifty. Several eminent goldsmiths and bankers, who had lent great sums upon it, were

obliged to stop payment, and abscond. The ebb of this portentous tide was so violent, that it bore down every thing in its way, and an infinite number of families were overwhelmed with ruin; public credit sustained a terrible shock; the nation was thrown into a dangerous ferment; and nothing was heard but the ravings of grief and despair. Some principal members of the ministry were deeply concerned in these fraudulent transactions. When they saw the price of stock sinking daily, they employed all their influence with the bank to support the credit of the South Sea Company. That corporation agreed, though with reluctance, to subscribe into the stock of the South Sea Company, valued at 400*l.* per cent., 3,500,000*l.*, which the company was to repay to the bank on Lady-day and Michaelmas of the ensuing year. This transaction was managed by Mr. Robert Walpole, who with his own hand wrote the minute of agreement, afterwards known by the name of the Bank Contract. Books were opened at the bank to take in a subscription for the support of public credit, and considerable sums of money were brought in. By this expedient the stock was raised at first, and those who contrived it, seized the opportunity to realize. But the bankruptcy of goldsmiths and the sword-blade company, from the fall of South Sea stock, occasioned such a run upon the bank, that the money was paid away faster than it could be received from the subscription. Then the South Sea stock sunk again, and the directors of the bank, finding themselves in danger of being involved in the company's ruin, renounced the agreement; which, indeed, they were under no obligation to perform, for it was drawn up in such a manner, as to be no more than the rough draft of a subsequent agreement, without due form, penalty, or clause of obligation." *

The directors of the South Sea Company took legal advice, with a view to compel the bank to perform their contract; but the matter was arranged through the intervention of the government, who remitted to the South Sea Company two millions sterling as a compensation for the non-performance of the bank contract.

1721. By the 8th Geo. I. c. 21, the South Sea Company were authorized to sell 200,000*l.* per annum, government annuities, and corporations purchasing the same at twenty-six years' purchase were allowed to add the amount to their capital stock. The bank purchased the whole of this 200,000*l.* per annum, at twenty years' purchase, making 4,000,000*l.*

1722. The bank capital increased 3,400,000*l.* by a new subscription. This made the amount of capital 8,959,995*l.*

* Smollett.

14*s.* 8*d.* April 23. The rate of discount on bills, reduced from five to four per cent.

1726. The stock called three per cents. 1726, was created this year by the means of a lottery.

1727. The bank advanced to government, 1,750,000*l.* upon the coal and culm duties, at four per cent. interest (1 Geo. II. c. 8).

1728. The bank advanced to government, 1,250,000*l.* upon the lottery, at four per cent. (2 Geo. II. c. 3).

1730. The half-yearly dividend at Lady-day was at the rate of six per cent. per annum, and that at Michaelmas at the rate of five and a half per cent. per annum.

1731. The dividends were the same as in the preceding year.

1732. The dividends were the same as in the preceding year. From this year until the year 1747, the dividends were at the rate of five and a half per cent. per annum.

Thursday, 3rd of August, about one o'clock, the governor, sub-governor, and several of the directors of the bank, came to see the first stone laid of their new building, in Threadneedle Street; and after they had viewed the stone, on which his Majesty's and their several names were engraved, the same was covered with a plate of lead, and that, with the base of a pillar. They then gave twenty guineas to be distributed among the workmen. The following are the names of the directors in this year:—

Sir Edward Bellamy, Governor.

Horatio Townsend, Deputy-Governor.

Robert Alsop, Alderman.	Mathew Raper.
Robert Attwood.	Moses Raper.
John Bance.	John Rudge.
Sir Ger. Conyers, Knt., Ald.	William Snelling.
Delillers Carbonnel.	Bryan Benson.
Sir Joseph Eyles.	Stamp Brooksbank.
Nathaniel Gould.	Clement Boehm.
Sir Gil. Heathcote, Knt., Ald.	William Faukener.
John Hanger.	James Gaultier.
Samuel Holden.	Christopher Lethieullier.
William Hunt.	Henry Neal.
Joseph Paice, Jun.	Robert Thornton.

The last eight were not in the direction the preceding years.

1734. Thursday, 5th of June. The directors began to transact business at their new house in Threadneedle Street The business of the bank had previously been carried on at Grocer's Hall, in the Poultry. In the hall of the new building was erected a curious marble statue of King William III. with a Latin inscription, of which the following is a translation :—

For restoring efficacy to the laws,
Authority to the courts of justice,
Dignity to the parliament,
To all his subjects their religion and liberties,
And
For confirming these to posterity,
By the succession of the illustrious House
Of Hanover
To the British Throne,
To the best of Princes, WILLIAM III.,
Founder of the Bank,
This Corporation, from a sense of gratitude,
Has erected this statue,
And dedicated it to his Memory,
In the year of Our Lord MDCCXXXIV.,
And the first year of this building.

1737. Considerable public discussion about the propriety of again renewing the bank charter. The following extracts from the 'London Magazine' of this year will show the sentiments which different writers entertained upon this subject :—

"The bank have power to lend money on land, and no doubt might have put out prodigious sums that way, and have had a better interest for their money than most private people. Had the bank, then, lent out their money on land, they would have strengthened their CREDIT and their INTEREST, and also extended their usefulness by relieving the landed property, of which there is a great deal at this time in mortgage, most unaccountably, at five per cent., while inferior securities bear a premium at three per cent.

"Another branch of business which the bank have power to transact, but yet never meddle with, is the remittance of money backwards and forwards to London from all the chief trading cities in England, for which they should have proper offices or inferior banks erected in all such cities and towns as they intend to manage a remittance with ;—this, besides what profit might be expected upon the remittances, would

naturally bring great part of the cash which is circulated in the country to be lodged in their hands.

"I must next observe that in that branch of business in which they do employ themselves, which is that of a *London banker*, they very much contract and narrow their dealings, by refusing to take in payment *the foreign coins*, for which reason it is impracticable with many traders to keep their cash with them.

"This very privilege which the bank has for so long enjoyed, I could demonstrate to be a most heavy burthen upon the people, and a great prejudice to the landed interest as well as the trading interest of this kingdom; for if it had not been for this privilege, we should have had a bank, perhaps, in every county in England, and probably half a dozen different banks in London, by which means no merchant of tolerable credit could ever have been straightened for want of ready money at a low interest when he had occasion for it, nor would any landed gentleman who had a good title to his estate have been obliged to pay such premiums to brokers, or such an interest to mortgagees as they have now generally to pay;—whereas our present bank has never, so far as I have heard, assisted any landed gentleman, nor any merchant, except in and about London only."

"I am of opinion that with respect to the banking trade and the trade to the East Indies, neither the one nor the other can be carried on with such success, or in such an extensive manner, by private adventurers, as by a public company with such an exclusive privilege as our present companies have. The circulating of bank bills or cash notes must certainly increase the current cash of any country, and must, therefore, be of great use in trade; consequently, the more extensive and the more general such a circulation is, the better will it be for the inland trade of that country. It is true, a private man or set of men may, by a long series of good management, gain a very extensive credit, but that credit can never come to be so extensive or near so general as the credit of a rich public company, that has supported itself with honour, perhaps, for some ages; because the credit of a private man always depends upon himself, so that when he dies, his credit, as to any further circulation, generally dies with him, for it must require some time before those who succeed can revive or regain it; whereas a public company never dies, nor can their credit meet with any such interruption; and as their managers are always chosen annually by the company, there is a greater security for its being under good management than a private bank, whose chief managers are appointed by the chance of natural or legal succession: therefore, I shall always think it better for a trading country to have a public bank than to trust entirely to private bankers.

"There certainly never was a body of men that contributed more to the public safety than the Bank of England. This flourishing and

opulent company have, upon every emergency, always cheerfully and readily supplied the necessities of the nation, so that there never have been any difficulties—any embarrassments—any delays in raising the money which has been granted by parliament for the service of the public; and it may very truly be said that they have, in very many important conjunctures, relieved the nation out of the greatest difficulties, if not absolutely saved it from ruin."

1738. Dec. 14. The bank commenced issuing post bills, payable seven days after sight, that in case the mail was robbed the parties might have time to stop payment of the bills. Highway robberies appear to have been very frequent at this period.

1742. The bank charter was extended or renewed until the expiration of twelve months' notice, to be given after the first day of August, 1764, and until payment by the public to the bank of the demands in this Act specified, being an extension or renewal of the said charter for twenty-two years (15 Geo. II. c. 13). In consideration of obtaining this charter, the bank lent to government 1,600,000*l.* without interest. To raise this sum the bank made a call upon the proprietors of 840,004*l.* 5*s.* 4*d.*, which increased their capital to 9,800,000*l.* Oct. 18. The rate of discount on bills drawn within the kingdom was raised to five per cent.; bills drawn without the kingdom were still discounted at four per cent.

1745. A RUN upon the bank, occasioned by the rebellion in Scotland, and supposed to be for the purpose of supplying the rebels with gold. A public meeting was held, and one thousand one hundred and forty merchants signed a declaration expressing their readiness to take bank notes.

1746. May 1. The rate of discount on foreign bills reduced from five to four per cent.: inland bills and notes were still charged five per cent. These rates continued until the year 1773. By the 19 Geo. II. c. 6., the bank delivered up to be cancelled 986,000*l.* exchequer bills, in consideration of an annuity of 39,472*l.*, being three per cent. per annum. To raise the above sum the bank made a call of ten per cent. upon their proprietors; this increased the bank capital from 9,800,000*l.* to 10,780,000*l.*

1747. The bank dividend was at the rate of five per cent. per annum. It continued at this rate until the year 1753.

1750. A reduction took place in the interest of part of the national debt. The bank held a court at Merchant-Taylor's Hall, and consented to receive a reduced rate of interest upon 8,486,800*l.* of the debt due to them by the government. The bank also agreed to advance to the government a sum of money to pay off the dissentients.

1751. In order to raise the sum promised to be lent to the government, the bank established what was called "Bank Circulation." Books were opened to the public, and any person might enter his name and the sum he was willing to lend to the bank, *in case it should be called for.* The books being closed, the bank had the power of calling for the whole or any part of the sum subscribed at any time they pleased. The subscribers were to receive 2*s.* per cent. on the total amount of their subscription, and 4*l.* per cent. on the sum actually advanced.

1752. By 25 Geo. II. the balance of annuities granted by 8 Geo. I. was carried to a three per cent. stock, formed in 1731, and they were consolidated into one stock—the new stock is still called "Three per cent. *consols.*" The word *consols* is a contraction for consolidated.

1753. The bank dividend this year was at the rate of four and three-quarters per cent.

1754. The bank dividend was at the rate of four and a half per cent. It continued at this rate until the year 1764.

1757. The government stock, called "Three per cent. reduced," derives its name from the operation of this year. This stock had borne four per cent. until the year 1750; from that time it paid three and a half per cent., and this year it was *reduced* to three per cent.

1758. It was legally determined that those persons who had given value for bank notes stolen from the mail, had a right to receive payment of them from the bank.

In this year occurred the first instance of the forgery of a bank note. It was committed by a person named R. W. Vaughan, who had been a linendraper at Stafford. The note

was for 20*l.*, the smallest amount then in circulation. He was convicted and executed.

1759. The bank commenced issuing notes and post bills of 15*l.* and 10*l.* It was proved by experiment, that five hundred and twelve 10*l.* bank notes weighed one pound.

1764. The bank charter was extended or renewed until the expiration of twelve months' notice, to be given after the first day of August, 1786, and until payment by the public to the bank of the demands therein specified; being an extension or renewal of the said charter for twenty-two years (4 Geo. III. c. 25).

In consideration of obtaining this charter the bank advanced 1,000,000*l.* on exchequer bills until the year 1766, and paid into the exchequer 110,000*l.*

The dividends this year were raised to five per cent. per annum, at which rate they continued until the year 1767.

1767. The bank dividend was raised to five and a half per cent., and was continued at that rate until the year 1781.

1773. The rate of discount on foreign bills raised from four to five per cent. The discount on both foreign and in land remained at five per cent., until the year 1822.

1775. Bankers were prohibited to issue notes of a less amount than 20*s.* (15 Geo. III. c. 51).

1777. Bankers were prohibited to issue notes of a less value than 5*l.* (17 Geo. III. c. 30).

1781. The bank charter was extended or renewed until the expiration of twelve months' notice, to be given after the first day of August, 1812, and until payment by the public to the bank of the demands therein specified; being an extension or renewal of the said charter for twenty-six years (21 Geo. III. c. 60). In consideration of obtaining this renewal of their charter, the bank advanced to the government 2,000,000*l.*, for three years, at three per cent.

The bank dividend raised to six per cent., at which rate it continued till the year 1788.

It is legally decided that the bank is not liable to pay forged notes.

1782. A call of 862,400*l.*, making the total capital of the

bank 11,642,400*l.* There was no further increase of capital until the year 1816.

1786. Previous to this year the bank received an allowance from the government on account of the management of the public debt; that is, for trouble in paying the dividends, superintending the transfer of stock, &c., of 562*l.* 10*s.* a million. It was now reduced to 450*l.* a million; the bank being at the same time entitled to a considerable allowance for trouble in receiving contributions on loans, lotteries, &c. This scale of allowance was continued until the year 1808.

1788. The bank dividend raised to seven per cent., at which rate it continued until the year 1807.

1791. A bill was brought into parliament to render 500,000*l.* of the unclaimed dividends on the public funds available for the service of the public; but the bank agreed to lend that sum to the government without interest, and the bill was withdrawn.

1792. A calculation was made with a view to ascertain the number of days that a bank note of each denomination remained in circulation in this year. The following are the results:—

	£					£		
Notes of	10	each,	236	days.	Notes of	50	each,	124 days.
,,	15	,,	114	,,	,,	100	,,	84 ,,
,,	20	,,	209	,,	,,	200	,,	31 ,,
,,	25	,,	74	,,	,,	300	,,	24 ,,
,,	30	,,	95	,,	,,	500	,,	24 ,,
,,	40	,,	65	,,	,,	1000	,,	22 ,,

1793. An Act of Parliament was passed (33 Geo. III. c. 32), declaring that the bank should not be subject to any penalties for advancing money to the government for the payment of bills of exchange, accepted by the commissioners of his Majesty's treasury, and made payable at the bank. The amount of sums so advanced was required to be annually laid before parliament. According to their original charter, the bank were prohibited lending money to the government without the consent of parliament, under a penalty of three times the sum lent: one-fifth part of which was to go to the informer.

This was a year of great commercial distress: twenty-two commissions of bankruptcy were issued against country bankers.

1794. The bank commenced issuing notes for 5*l.*

1795. The bank having resolved to reduce their discounts, placed the following notice in the discount office:—

"Bank of England, 31st December, 1795.

"Pursuant to an order of the Court of Directors:

"Notice is hereby given,

"That no bills will be taken in for discount at this office after 12 o'clock at noon, or notes after 12 o'clock on Wednesday.

"That in future, whenever the bills sent in for discount shall in any day amount to a larger sum than it shall be resolved to discount on that day, a pro ratâ proportion of such bills in each parcel as are not otherwise objectionable, will be returned to the person sending in the same, without regard to the respectability of the party sending in the bills, or the solidity of the bills themselves.

"The same regulation will be observed as to the notes."

1797. THE SUSPENSION OF CASH PAYMENTS.

This took place on Monday, Feb. 27th, in consequence of an order in council, which ran in the following terms:—

"Upon the representation of the Chancellor of the Exchequer, stating that from the results of the information which he had received, and of the inquiries which it has been his duty to make, respecting the effects of the unusual demand for specie that has been made upon the metropolis, in consequence of ill-founded or exaggerated alarms in different parts of the country; it appears, that unless some measure is immediately taken, there may be reason to apprehend a want of a sufficient supply of cash to answer the exigencies of the public service. It is the unanimous opinion of the Board, that it is indispensably necessary for the public service, that the directors of the Bank of England should forbear issuing any cash in payment, until the sense of parliament can be taken on that subject, and the proper measures adopted thereupon, for maintaining the means of circulation and supporting the public and commercial credit of the kingdom at this important conjuncture; and it is ordered that a copy of this minute be transmitted to the directors of the Bank of England, and they are hereby required, on the grounds of the exigency of the case, to conform thereto until the sense of parliament can be taken as aforesaid."

Among the crowd assembled at the bank, with a view of

demanding gold, handbills were distributed, of which the following is a copy :—

"Bank of England, Feb. 27th, 1797.

"In consequence of an order of his Majesty's Privy Council, notified to the bank last night, a copy of which is hereunto annexed, the governor, deputy-governor, and directors of the Bank of England think it their duty to inform the proprietors of the bank stock, as well as the public at large, that the general concerns of the bank are in a most affluent and prosperous situation, and such as to preclude every doubt as to the security of its notes. The directors mean to continue their usual discounts for the accommodation of the commercial interest, paying the amount in bank notes, and the dividend warrants will be paid in the same manner."

On the same day was held a meeting of merchants, bankers, and others, the lord mayor in the chair, when the following resolution was unanimously passed :—

"That we, the undersigned, being highly sensible how necessary the preservation of public credit is at this time, do most readily declare, that we will not refuse to receive bank notes in payment of any sum of money to be paid to us, and we will use our utmost endeavours to make all our payments in the same manner."

This resolution was left for signature at several of the most respectable taverns, and a similar resolution was subsequently adopted by other public assemblies.

Immediately afterwards, the House of Commons appointed a committee to inquire into the affairs of the bank. The committee reported, that "The total amount of outstanding demands on the bank, on the 25th of July, was 13,770,390*l.*; and that the total amount of the funds for discharging those demands (not including the permanent debt due from government, of 11,686,800*l.*, which bears an interest of three per cent.), was 17,597,280*l.*; and the result is, that there was, on the 25th day of February last, a surplus of effects belonging to the bank, beyond the amount of their debts, amounting to the sum of 3,825,890*l.*, exclusive of the above-mentioned permanent debt of 11,684,800*l.* due from government." From accounts since published, it appears that the amount of gold and silver in possession of the bank was reduced by the previous run to 1,086,170*l.*

1797. March 3. The bank were authorized to issue notes under 5*l.*; 37 Geo. III. c. 28. It is entitled, "An Act to remove doubts respecting promissory notes of the Governor and Company of the Bank of England, for payment of sums of money under 5*l.*" Accordingly, on the 10th of March the bank issued, for the first time, notes for 1*l.* and 2*l.*

May 3. THE BANK RESTRICTION ACT PASSED. It is the 37 Geo. III. c. 45; and is entitled, "An Act for continuing, for a limited time, the restriction contained in the minute of council of the 26th of February, 1797, on payment of cash by the bank." By this Act the bank directors were indemnified against any legal proceedings on account of having complied with the order of council. They were not permitted to issue cash, except for any sum under twenty shillings. But if any person lodged *cash* in the bank, he might be repaid in cash to the extent of three-fourths of the sum lodged; but the sum lodged must not be less than 500*l.* The bank were also allowed to advance to the bankers of London, Westminster, and Southwark, any sum of cash not exceeding in the whole 100,000*l.*; and also 25,000*l.* each to the Bank of Scotland and the Royal Bank of Scotland, during the continuance of this Act. The bank could not be sued for payment of any of their notes, for which they were willing to give other notes; and no person could be held to special bail upon any process issuing out of any court, unless the affidavit made for the purpose stated, also, that the party had made no offer to pay in bank notes. This Act was to be in force till the 24th day of the following June, a duration of fifty-two days.

1797. June 22. Another Act was passed, continuing the bank restriction until one month after the commencement of the then next session of parliament.

Nov. 30. A third Act passed, continuing the restriction until six months after the conclusion of the war.

An Act was also passed (37 Geo. III. c. 32), suspending the Acts passed in 1777, which prohibited bankers issuing notes below the amount of 5*l.*, and the country bankers commenced issuing notes of 1*l.*

1799. Jan. 3. The bank gave notice, "That on and after

the 14th instant, they would pay in cash all fractional sums under 5*l.*; and that on and after the 1st day of February next, the bank will pay cash for all notes of 1*l.* and 2*l.* value that are dated prior to the 1st day of July, 1798, or exchange them for new notes of the same value, at the option of the holders."

This year the bank proprietors received a bonus of ten per cent. on their capital. The bonus was made in five per cents., 1797.

1800. The bank charter was extended or renewed until the expiration of twelve months' notice, to be given after the 1st day of August, 1833, and until payment by the public to the bank of the demands therein mentioned; being an extension or renewal of the said charter for twenty-one years (40 Geo. III. c. 28). In consideration of obtaining this renewal of their charter, the bank agreed to lend the government the sum of 3,000,000*l.* without interest for six years.

The 40 Geo. III. c. 36, was enacted to enable courts of equity to compel a transfer of stock in suits, without making the Bank of England, or the East India Company, or the South Sea Company, partners in the sales.

1801. 41 Geo. III. c. 57, was enacted "For the better prevention of the forgery of the notes and bills of exchange of persons carrying on the business of bankers."

"After July 10th, 1801, no person shall use or make any frame or mould for making paper, with the name or firm of any persons or body corporate appearing in the substance of the paper, without a written authority for that purpose: or shall make or vend such paper, or cause such name or firm to appear in the substance of the paper, whereon the same shall be written or printed,—on penalty of being imprisoned for the first offence, not exceeding two years, nor less than six months; and for the second offence, transported for seven years.

"No person shall engrave, &c., any bill or note of any person or banking company, or use any plate so engraved, or any device for making or printing such bill or note, nor shall knowingly have in his custody such plate or device, or shall utter such bill or note, without a written authority for that purpose, under a like penalty.

"No person shall engrave, &c., on any plate, any subscriptions subjoined to any bill or note of any person or banking company, payable to bearer on demand, or have in his possession any such plate, on penalty, for the first offence, of being imprisoned not exceeding three years, nor

less than twelve months; and for the second, transported for seven years."

1801. The proprietors of bank stock received a bonus of five per cent. on their capital in navy five per cents.

1802. The war having been concluded by the peace of Amiens, the Bank Restriction Act would have expired six months afterwards, but it was by a new Act continued in force till the 1st day of March, 1803.

The bank proprietors received a bonus of two and a half per cent. on their capital in navy five per cents.

1803. Feb. 28. The Bank Restriction Act was continued until six weeks after the commencement of the next session of parliament.

Dec. 15. War having recommenced, the Bank Restriction Act was continued until six months after the conclusion of a definitive treaty of peace.

The bank is said to have lost this year no less a sum than 300,000*l.*, through a fraud committed by one of their principal cashiers, Mr. Astlett.

1804. The bank proprietors received a bonus in cash of five per cent. on their capital.

In consequence of the scarcity of silver, the bank issued five-shilling dollars. These dollars had on the obverse side an impression of his Majesty's head, and the following superscription: "Georgius III. Dei Gratia Rex;" and on the reverse side, the impression of Britannia and the following: "Five shillings dollar. Bank of England, 1804." The bank subsequently issued silver tokens for three shillings, and for one shilling and sixpence. By an Act passed in 1812, the counterfeiting these dollars and tokens was liable to a punishment of fourteen years' transportation.

By 44 Geo. III. c. 98, the following duties were imposed upon the notes of country bankers:—

						£	*s.*	*d.*
Not exceeding	£1	1*s.*	...		...	0	0	3
Exceeding . .	1	1	not exceeding	£2	2*s.*	0	0	6
„ . .	2	2	„	5	5	0	0	9
„ . .	5	5	„	20	0	0	1	0

These duties continued until the year 1808.

1805. The bank proprietors received another bonus of five per cent. in cash.

1806. Another bonus of five per cent. in cash.

1807. The dividend on bank stock was raised from seven to ten per cent., at which rate it continued until the year 1823.

1808. The allowance from the government to the bank for managing the public debt, reduced from 450*l.* a million, to 340*l.* a million, on six hundred millions of the debt, and to 300*l.* a million on all that it exceeded that sum. This was exclusive of some separate allowances on annuities, &c.

By 48 Geo. III. c. 149, the following duties were imposed upon country bank notes:—

						£	s.	d.
Not exceeding	£1	1s.	. . .			0	0	4
Exceeding . .	1	1	not exceeding	£2	2s.	0	0	8
,, . .	2	2	,,	5	5	0	1	0
,, . .	5	5	,,	20	0	0	1	6
,, . .	20	0	,,	30	0	0	3	0
,, . .	30	0	,,	50	0	0	4	6
,, . .	50	0	,,	100	0	0	7	6

These duties remained the same until the year 1815.

1810. The BULLION COMMITTEE, appointed by the House of Commons for the purpose of inquiring into the causes of the high price of gold bullion, and its effect on the circulating medium.

1810. The committee delivered a very long report, in which they discussed a variety of matters connected with the currency, and concluded by recommending that the bank should resume cash payments at the end of two years. The following are extracts:—

"Your committee have found that the price of gold bullion which, by the regulation of his Majesty's mint, is 3*l.* 17*s.* 10½*d.* per ounce of standard fineness, was, during the years 1806, 1807, and 1808, as high as 4*l.* in the market. Towards the year of 1808 it began to advance very rapidly, and continued very high during the whole year 1809, the market price of standard gold fluctuating from 4*l.* 9*s.* to 4*l.* 12*s.* per oz. The market price at 4*l.* 10*s.* is about 15½ per cent, above the mint price.

"Your committee have likewise found that towards the end of the year 1808, the exchanges with the continent became very unfavourable

to this country, and continued still more unfavourable through the whole of 1809, and the three first months of the present year.

"Mr. Whitmore, the late governor of the bank, stated to the committee, that in regulating the general amounts of the loans and discounts, he did 'not advert to the circumstance of the exchanges, it appearing upon a reference to the amount of our notes in circulation, and the course of the exchange, that they frequently have no connexion.'

"Mr. Pearse, now governor of the bank, agreed with Mr. Whitmore in this account of the practice of the bank, and expressed his full concurrence in the same opinion. Mr. PEARSE,—'In considering this subject with reference to the manner in which bank notes are issued, resulting from the applications made for discounts to supply the necessary want of bank notes, by which their issue in amount is so controlled that it can never amount to an excess; I cannot see how the amount of bank notes issued can operate upon the price of bullion, or the state of exchanges; and therefore I am individually of opinion, that the price of bullion or the state of the exchanges can never be a reason for lessening the amount of bank notes to be issued, always understanding the control which I have already described.'

"The bank directors, as well as some of the merchants who have been examined, showed a great anxiety to state to your committee a doctrine, of the truth of which they professed themselves to be most thoroughly convinced; that there can be no possible excess in the issue of Bank of England paper, so long as the advances in which it is issued are made upon the principles which at present guide the conduct of the directors —that is, so long as the discount of mercantile bills is confined to paper of undoubted solidity, arising out of real commercial transactions, and payable at short and fixed periods. That the discounts should be made only upon bills growing out of real commercial transactions, and falling due in a fixed and short period, are sound and well established principles. But that while the bank is restrained from paying in specie, there need be no other limits to the issue of their paper than what is fixed by such rules of discount; and that during the suspension of cash payments, the discount of good bills falling due at short periods cannot lead to any excess in the amount of bank paper in circulation, appears to your committee to be a doctrine wholly erroneous in principle, and pregnant with dangerous consequences in practice.

"Upon a review of all the facts and reasonings, which have been submitted to the consideration of your committee in the course of this inquiry, they have formed an opinion, which they submit to the House —That there is at present an excess in the paper circulation of this country, of which the most unequivocal symptom is the very high price of bullion, and, next to that, the low state of the continental exchanges; that this excess is to be ascribed to the want of a sufficient check and control in the issues of paper from the Bank of England, and originally

to the suspension of cash payments, which removed the natural and true control.

"Your committee would suggest, that the restriction on cash payments cannot safely be removed at an earlier period than two years from the present time; but your committee are of opinion that early provision ought to be made by Parliament for terminating, at the end of that period, the operation of the several statutes which have imposed and continue that restriction."

This report was delivered late in the session, and was not taken into consideration by the House until the following year.

1811. The commercial distress of the country had become so great, that Parliament authorized the sum of six millions to be advanced to merchants on their giving sufficient security; but such had been the fall in the price of mercantile property, that not many could give the required security, and bankruptcies were numerous. Whether this distress arose from any preparations of the bank to return to cash payments, from the American embargo, or from Buonaparte's Berlin and Milan decrees, was a matter of much controversy. From the accounts since published, it does not appear that the bank had taken any measures to increase their stock of gold; but during the years 1810, 1811, and 1812, they considerably reduced their private securities and increased the amount of their public securities. Thus on the last day of February, 1810, their public securities were 14,322,634*l.*, and their private securities 21,055,946*l.* On the same day in 1813, their public securities were 25,036,626*l.*, and the private securities 12,894,324*l.* This progressive reduction of the discounts no doubt occasioned great distress, though it was in some degree counteracted by an increase in the same period of above two millions in the circulation.

The report of the Bullion Committee was taken into consideration by the House of Commons, and after much discussion rejected. Instead of the measures recommended by the committee, the House adopted certain resolutions proposed by Mr. Vansittart (now Lord Bexley), declaring that the value of bank notes was not depreciated, but that the value of gold was enhanced; and that the political and commercial relations of Great Britain with foreign states were sufficient

to account for the unfavourable state of the foreign exchanges and the high price of bullion.

July 24. Lord Stanhope's Act passed. This Act (51 Geo. III. c. 127) is entitled, "An Act for making more effectual provision for preventing the current gold coin of the realm from being paid or accepted for a greater value than the current value of such coin; for preventing any note or bill of the Governor and Company of the Bank of England from being received for any smaller sum than the sum therein specified; and for staying proceedings upon any distress by tender of such notes." It enacts that the taking of gold coin at more than its value, or Bank of England notes for less than their value, shall be deemed a misdemeanor. This Act was to be in force until the 25th of March, 1812. It was introduced by the Earl of Stanhope, in consequence of the following notice having been addressed by Lord King to his tenantry:—

"By lease, dated 1802, you have contracted to pay the annual rent of 47*l.* 5*s.* in good and lawful money of Great Britain. In consequence of the late great depreciation of paper money, I can no longer accept any bank notes at their nominal value in payment or satisfaction of an old contract. I must, therefore, desire you to provide for the payment of your rent in the legal gold coin of the realm; at the same time, having no other object than to secure payment of the real intrinsic value of the same, stipulated by agreement, and being desirous to avoid giving you any unnecessary trouble, I shall be willing to receive payment in either of the manners following, according to your option:—1st. By payment in guineas; 2nd. If guineas cannot be procured, by a payment in Portugal gold coin, equal in weight to the number of guineas requisite to discharge the rent; 3rd. By a payment in bank paper, of a sum sufficient to purchase (at the present market price) the weight of standard gold requisite to discharge the rent. The alteration in the value of paper money is estimated in this manner: the price of gold, in 1802, the year of your agreement, was 4*l.* an ounce; the present market price is 4*l.* 14*s.*, arising from the diminished value of paper. In that proportion an addition of 17*l.* 10*s.* per cent. in paper money will be required as the equivalent for the payment of rent in paper."

1812. "An Act passed for the further prevention of the counterfeiting of silver tokens issued by the Governor and Company of the Bank of England, called *dollars*, and of

silver pieces issued and circulated by the said Governor and Company, called *tokens*, and for the further prevention of frauds practised by the imitation of the notes or bills of the said Governor and Company" (52 Geo. III. c. 138).

Lord Stanhope's Act continued, by 52 Geo. III. c. 5, until three months after the commencement of the next session of parliament.

1814. Lord Stanhope's Act revived and continued, by 54 Geo. III. c. 52, during the continuance of the Bank Restriction Act.

1815. The following stamp duties were imposed upon the notes of country bankers (55 Geo. III. c. 184):—

	£	s.		£	s.	s.	d.
Not exceeding	1	1	. . . . .			0	5
Exceeding . .	1	1	and not exceeding	2	2	0	10
„ . .	2	2	„	5	5	1	3
„ . .	5	5	„	10	0	1	9
„ . .	10	0	„	20	0	2	0
„ . .	20	0	„	30	0	3	0
„ . .	30	0	„	50	0	5	0
„ . .	50	0	„	100	0	8	6

1815. Peace being restored, the Bank Restriction Act would have expired six months afterwards, but it was continued by a new Act until the 5th July, 1816.

1816. The Bank Restriction Act continued from July, 1816, to July, 1818.

The bank was authorized to increase its capital from 11,642,400*l.* to 14,553,000*l.*, being an addition of twenty-five per cent. to the stock of the several proprietors. This addition was made out of the surplus profits without any further call (56 Geo. III. c. 96). In consideration of obtaining this privilege, the bank agreed to lend the government the sum of 3,000,000*l.* at three per cent.

1817. April 17. The bank gave notice that on and after the second day of May then next ensuing, they would pay cash for all notes of 1*l.* and 2*l.* value dated prior to the first day of January, 1816, or exchange them for new notes of the same value, at the option of the holders.

Sept. 18. The bank gave notice that on and after the first

day of October then next ensuing, they would be ready to pay cash for their notes, of every description, dated prior to the first day of January, 1817.

1818. The Bank Restriction Act continued from the 5th July, 1818, to 5th July, 1819.

A calculation was made this year, to ascertain the number of days that a bank note of each denomination remained in circulation. The following are the results:—

	£				£	
Notes of	1 and 2*l*.	147 days.		Notes of	40	38 days.
„	5	148 „		„	50	72 „
„	10	137 „		„	100	49 „
„	15	66 „		„	200	18 „
„	20	121 „		„	300	14 „
„	25	43 „		„	500	14 „
„	30	55 „		„	1000	13 „

The bank had always been in the practice of detaining the forged notes offered for payment. But two persons, who had forged notes returned to them by the bank, paid the amount and kept the notes. They were charged with having forged notes in their possession, and tried on this charge, but the juries acquitted them. In consequence of this decision the bank have since returned all forged notes to the parties presenting them, after having stamped them in several places with the word "forged."

1819. A bill passed through parliament in the course of two nights to restrain the bank paying away any more gold under its notice of September, 1817, or any previous notice. A committee of the House of Commons had reported that the bank had paid away above five millions in gold; the greater part of which had been taken to the continent, and there re-coined into foreign money.

From an account submitted to parliament, of the total amount of outstanding demands on the Bank of England, and the funds for discharging the same, it appears that there was a surplus in favour of the bank of 5,202,320*l.*, independently of their capital of 14,686,800*l.*

Mr. Peel's Bill passed. This bill (59 Geo. III. c. 49), contains the following provisions:—

1. The Bank Restriction Act was continued, absolutely, from the 5th of July, 1819, to February 1, 1820.

2. Between February 1 and October 1, 1820, the bank were required to pay their notes in good bullion of standard fineness, at the rate of 4*l.* 1*s.* per ounce, but not to be liable to a demand for a less quantity than sixty ounces at one time.

3. Between October 1, 1820, and May 1, 1821, the bank were required to pay their notes in gold bullion upon the same plan, at the rate of 3*l.* 19*s.* 6*d.* per ounce.

4. Between May 1, 1821, and May 1, 1823, the bank were to pay in gold bullion upon the same plan, at the rate of 3*l.* 17*s.* 10½*d.* per ounce, which was the mint price of gold.

5. From May 1, 1823, the bank were to pay their notes in the gold coin of the realm.

6. But between February 1 and October 1, 1820, the bank may make payments at a less rate than 4*l.* 1*s.*, and not less than 3*l.* 19*s.* 6*d.* per ounce; and between October 1, 1820, and May 1, 1821, the bank may pay at any rate less than 3*l.* 19*s.* 6*d.*, and not less than 3*l.* 17*s.* 10½*d.*, on giving three days' notice in the Gazette. Such payments to be made in ingots or bars of gold, of the weight of sixty ounces. The bank were also permitted to pay in gold coin on or after May 1, 1822.

7. All the laws which restrained the exportation of gold and silver coin were repealed, and the coin was allowed to be exported or melted without incurring any penalty.

The bill did not give satisfaction to the bank directors. They wished to be allowed to pay their notes in gold bullion at the market price of the day.

The 59 Geo. III. c. 76, was passed to prohibit the bank making advances to government without the authority of parliament. But the bank were allowed to purchase exchequer bills, or to advance money on them, but the amount of such bills must be laid annually before parliament.

1820. An Act passed for the further prevention of forging and counterfeiting of bank notes (1 Geo. IV. c. 92). It also enacted, that the names of persons authorized by the bank directors to sign the notes, might be impressed by machine

instead of being subscribed in the handwriting of such persons.

1821. The bank commenced paying off their notes under 5*l.* in gold. The directors had procured an Act of Parliament, 1 & 2 Geo. IV. c. 26, permitting them to do so from the first day of May, 1821. The gold coins issued by the bank were not guineas, but sovereigns of the value of twenty shillings, which were now first coined. The gold coined at the mint this year amounted to 9,520,758*l.*, and the silver to 433,686*l.*

1822. In this year an Act was passed, permitting the country bankers to continue the issuing of notes under 5*l.* until the expiration of the bank charter in 1833. As the law previously stood, their notes were prohibited on the resumption of cash payments by the bank. The directors made the following reference to this subject, in a memorandum they delivered to the parliamentary committee of 1832:—

"By the resolution of the House of Commons of 1819, the bank were required, within four years, to pay off in gold the amount of their one-pound notes then in circulation (about 7,500,000*l.*); further, to provide the coin for paying off the country small notes in 1825 (about seven or eight millions more), in addition to which the necessity was imposed of providing the requisite surplus bullion for insuring the convertibility of all their liabilities, which addition of bullion to their then stock could not be estimated at less than 5,000,000*l.*; making in the aggregate 20,000,000*l.* of gold as necessary to be provided from foreign countries, within the space of four years from 1819.

"That supply of gold could only be purchased by reduced prices of commodities; the bank withdrawing a given amount of securities, in the first instance, the notes for which might be re-issued in payment of the gold as imported. The low prices and general state of trade, from 1819 to 1821, and the withdrawal of the bank's securities, enabled the bank to cancel their small notes in the latter year; and in the following (1822), three years prior to the time fixed by par-

liament, they were in a situation to furnish the gold for paying off the country small notes, when, without any communication with the bank, the government thought proper to authorize a continuance of the circulation of the country small notes until 1833. The consequence of that measure was, to leave in the possession of the bank an inordinate quantity of bullion (14,200,000*l.* in January, 1824); and further, to afford the power of extension to the country bankers' issues, which it is believed were greatly extended, from 1823 to 1825."

By a return from the Stamp Office, it appears that the number of country banks this year was five hundred and fifty-two, and the number of persons in those firms was one thousand six hundred and seventy-three.

1822. June 22. The bank reduced the rate of interest upon bills of exchange from five to four per cent., and extended the time of such bills from sixty-one to ninety-five days.

In this year the government reduced the interest of the navy five per cents. to four per cent. Each holder of 100*l.* stock received 105*l.* new stock, bearing four per cent., with a guarantee that the interest should not be farther reduced until the year 1829. This new stock was distinguished by the name of "new fours." The bank agreed to advance the money to pay off the dissentients.

1822. In consequence of the abolition of the notes under 5*l.*, the bank found they had many more clerks than was necessary. A good number were, therefore, discontinued; the bank giving them either a pension, or the value of a pension in ready money, at the option of the clerks. The conduct of the bank on this occasion was highly liberal, and met with universal approbation.

1823. Lady-day. The dividend on bank stock was reduced from ten to eight per cent.

The bank engaged to advance to government, between April, 1823, and April, 1828, the sum of 13,089,419*l.*, for the purpose of defraying the charge of military and naval pensions, and to receive in lieu of this sum 585,740*l.* per annum; to commence from the 5th of April, 1823, and to continue for

a term of forty-four years, and then to cease. This charge is commonly called "the dead weight."

In the latter end of this year, the bank commenced advancing money upon the security of government stock. They also lent 1,500,000*l.* to the East India Company.

1824. The bank extended their advances upon stock, and commenced lending money on mortgage.

The old four per cents. were reduced to three and a half per cent. The new stock is called "Three and a half per cent. reduced."

This and the subsequent year were remarkable for the commencement of a great number of joint-stock companies. The total number of projects were six hundred and twenty-four, and to carry them all into effect would have required a capital of 372,173,100*l.* They have been thus classified:—*

		Capital. £
74	Mining Companies	38,370,000
29	Gas ditto	12,077,000
20	Insurance ditto	35,820,000
29	Investments ditto	52,600,000
54	Canal Railroad ditto	44,051,000
67	Steam ditto	8,555,500
11	Trading ditto	10,450,000
26	Building ditto	13,781,000
24	Provision ditto	8,360,000
292	Miscellaneous ditto	148,108,600
624		£372,173,100

The above companies are divided by Mr. English into four classes. First, companies which continued to exist in the year 1827; secondly, companies whose shares had been sold in the market, but were afterwards abandoned; thirdly, companies which published prospectuses, or which were announced in the papers, but which are not known to have issued shares; fourthly, companies the formation of which was noticed in the public papers, but the particulars not specified.

* See 'A Complete View of the Joint-stock Companies, formed during the years 1824 and 1825,' by Henry English.

The following is the general summary :—

	Companies.	Capital required.	Amount actually advanced.
		£	£
127	Companies existing in 1827 .	102,781,600	15,185,950
118	ditto abandoned	56,606,500	2,419,675
236	ditto projected	143,610,000	
143	ditto ditto not particularized.	69,175,000	
624		£372,173,100	£17,605,625

Besides the capital required for the above companies, large sums of money were granted as loans to foreign powers, as appears from the following table :—

A list of the foreign loans contracted in England, with the amounts of the same; the names of the contractors, the years in which the contracts were made, and the prices at which they were issued.

	£	Per Cent.			Per Cent.
Austrian . . .	2,500,000	5	N. M. Rothschild . .	1823	82
Belgian	2,000,000	,,	Ditto	1832	75
Brazilian	3,200,000	,,	T. Wilson & Co . . .	1824	75
Ditto	2,000,000	,,	N. M. Rothschild . .	1825	85
Ditto	800,000	,,	Rothschild & Wilson .	1829	
Buenos Ayres . .	1,000,000	6	Baring, Brothers . .	1824	85
Chili	1,000,000	,,	Hullett, Brothers . .	1822	70
Columbian . . .	2,000,000	,,	Herring, Graham, & Co.	1822	84
Ditto	4,750,000	,,	B. A. Goldschmidt & Co.	1824	88½
Danish	5,500,000	3	T. Wilson & Co. . . .	1825	75
Greek	800,000	5	Loughnan & Co. . . .	1824	59
Ditto	1,000,000	,,	Ricardos	1825	56½
Guatemala . . .	1,428,571	6	I. & A. Powles . . .	1825	73
Guadaljava . . .	600,000	5	W. Ellward, Jun. . .	1825	60
Mexican . . .	3,200,000	,,	B. A. Goldschmidt & Co.	1824	58
Ditto	3,200,000	6	Barclay, Herring, & Co.	1825	89¾
Neapolitan . . .	2,500,000	5	N. M. Rothschild . .	1824	92½
Prussian	5,000,000	,,	Ditto	1818	72
Ditto	3,500,000	,,	Ditto	1822	84
Portuguese . . .	1,500,000	,,	B. A. Goldschmidt & Co.	1823	87
Peruvian	450,000	6	Frys and Chapman . .	1822	88
Ditto	750,000	,,	Ditto	1824	82
Ditto	616,000	,,	Ditto	1825	78
Russian	3,500,000	5	N. M. Rothschild . .	1822	82
Spanish	1,500,000	,,	A. F. Haldimand . .	1821	56
Ditto	1,500,000	,,	J. Campbell & Co. . .	1823	30¼

1825. At the commencement of this year there was every appearance of general prosperity, but in December occurred "THE PANIC."

The course of exchange being unfavourable, had occasioned a demand for gold for exportation. The bank became under the necessity of restraining its issues.

The house of Sir Peter Pole and Co., who were agents to several country banks, stopped payment. This occasioned a general alarm, and the notes of private bankers became discredited throughout the country. As the bank had ceased to issue notes under 5*l.* they were obliged to find gold to the country bankers to pay off their notes; but their gold failing, they re-issued their 1*l.* notes, some of which, happily, had not been destroyed. Notwithstanding the great liberality of the bank, several London bankers, and a much greater number of country bankers, were obliged to suspend their payments. Most of the joint-stock companies, that had been formed in the season of speculation, fell to the ground.

The following is the opinion of J. H. Palmer, Esq., the governor of the bank, as to the causes of the wild spirit of speculation which had preceded the panic:—

"Will you state to the committee what, in your opinion, was the nature and the march of the crisis in 1825?—I have always considered that the first step towards the excitement was the reduction of the interest upon the government securities; the first movement in that respect was, I think, upon 135,000,000*l.* of five per cents., which took place in 1823. In the subsequent year, 1824, followed the reduction of 80,000,000*l.* of four per cents. I have always considered that reduction of interests, one-fifth in one case, and one-eighth in the other, to have created the feverish feeling in the minds of the public at large; which prompted almost everybody to entertain any proposition for investment, however absurd, which was tendered. The excitement of that period was further promoted by the acknowledgment of South American republics by this country, and the inducements held out for engaging in mining operations, and loans to those governments, in which all classes of the community in England seem to have partaken almost simultaneously. With those speculations arose general speculation in commercial produce, which had an effect of disturbing the relative values between this and other countries, and creating an unfavourable foreign exchange, which continued from October, 1824, to November, 1825, causing a very considerable export of bullion from the

bank; about seven millions and a half. Commercial speculations had induced some bankers, one particularly, to invest money in securities not strictly convertible, to a larger extent than was prudent; they were also largely connected with country bankers. I allude to the house of Messrs. Pole and Co.: a house originally possessed of very great property, in the persons of the partners, but which fell with the circumstances of the times. The failure of that banking-house was the first decisive check to commercial and banking credit, and brought at once a vast number of country bankers, which were in correspondence with it, into difficulties. That discredit was followed by a general discredit throughout London and the interior."

Some of the other witnesses considered the panic to have arisen from an over-issue of notes on the part of the Bank of England and the country bankers. But whatever may have been the cause, the bank certainly acted with great liberality at the period of the alarm, even at the risk of its own stoppage of payment.

"Will you describe the manner in which the bank lent its assistance at that time?—We lent it by every possible means, and in modes that we never had adopted before. We took in stock as security, we purchased exchequer bills, we made advances on exchequer bills, we not only discounted outright, but we made advances on deposit of bills of exchange to an immense amount; in short, by every possible means consistent with the safety of the bank; and we were not, upon some occasions, over nice; seeing the dreadful state in which the public were, we rendered every assistance in our power.

"Did any communication take place between the bank and the government respecting an order in council to restrain payments in gold at that period?—Yes; it was suggested by the bank.

"What answer did his Majesty's government give to that?—They resisted it from first to last.

"The Bank of England issued one-pound notes at that period. Was that done to protect its remaining treasure?—Decidedly; and it worked wonders, and it was by great good luck that we had the means of doing it: because one box containing a quantity of one-pound notes had been overlooked, and they were forthcoming at the lucky moment.

"Had there been no foresight in the preparation of these one-pound notes?—None whatever, I solemnly declare.

"Do you think that issuing of the one-pound notes did avert a complete drain?—As far as my judgment goes, it saved the credit of the country."

Evidence of Jeremiah Harman, Esq. (p. 154.)

On the last day of December, 1825, the coin and bullion in the bank amounted to only 1,260,890*l.*

Dec. 13. The bank raised the rate of discount from four to five per cent. upon bills not having more than ninety-five days to run. This rate continued until July, 1827.

1826. Jan. 13. The government made a communication to the bank directors, stating their intention, in order to prevent a recurrence of panic, to propose to parliament the gradual abolition of country bank notes under 5*l.*; and also proposing to the bank,

"First, That the Bank of England should establish branches of its own body in different parts of the country.

"Secondly, That the Bank of England should give up its exclusive privilege as to the number of partners engaged in banking, except within a certain distance from the metropolis."

The directors were at first unwilling to establish branches, but ultimately they acceded to both the above propositions.

The government also induced the bank to make advances upon the security of goods, and accordingly the bank established boards for this purpose at the following places, and advanced to the undermentioned amounts:—

	£		£
Manchester . .	115,490	Huddersfield . .	30,300
Glasgow . . .	81,700	Birmingham . .	19,600
Sheffield. . . .	59,500	Dundee	16,500
Liverpool . . .	41,450	Norwich	2,400

To carry these measures into effect several Acts of Parliament were passed, viz.:—

"An Act to facilitate the advancing of money by the Governors and Company of the Bank of England, upon deposits and pledges" (7 Geo. IV. c. 7). It was enacted that persons in possession of bills of lading, warrants, &c., should be deemed owners of the goods therein mentioned, so far as to make valid any contracts for the advance of money thereupon by the Bank of England.

"An Act to limit, and after a certain period to prohibit, the issuing of promissory notes, under a limited sum, in England" (7 Geo. IV. c. 6). By this Act no further notes under 5*l.* were allowed to be stamped, and those already stamped could not be issued or re-issued after the 5th of

April, 1829, under a penalty of 20*l.* The Bank of England were required to make monthly returns to the treasury, of the weekly amounts of their notes in circulation under 5*l.*, to be published in the Gazette, and laid before parliament. And after the 5th of April, 1829, all bankers' notes under 20*l.* were to be made payable at the place of issue, though they might also be made payable at other places.

"An Act for the better regulating copartnerships of certain bankers in England, &c." (7 Geo. IV. c. 46.) According to this Act—

1. Banks having more than six partners might carry on business in England at a greater distance than sixty-five miles from London, provided they have no establishment as bankers in London, and that all the partners are liable for the whole debts of the bank.

2. The banks shall not issue their notes at a place within sixty-five miles from London, nor draw any bills on London for a less amount than 50*l.*

3. The banks may sue, and be sued, in the name of their public officers; and when judgment is obtained against such public officers, execution may be issued against any member of the copartnership.

4. Previous to issuing notes, the bank shall deliver to the Stamp Office, schedules containing the name or title of the bank—the names and places of abode of all the partners—the names of the places where the banks are established—and the names and descriptions of the public officers in whose names the bank wishes to sue and be sued.

5. These banks are allowed to compound for the stamp duties on their notes, at the rate of seven shillings per annum for every 100*l.* in circulation.

By the fifteenth clause of this Act, the Bank of England were expressly authorized to establish branches. This was enacted to "prevent any doubts that might arise" upon the subject. The bank accordingly opened branches this year at Gloucester, Manchester, and Swansea.

1827. July 5. The bank reduced the rate of discount from five to four per cent.

The extension of the branches of the Bank of England this year occasioned great dissatisfaction among the country bankers. The establishment of rival banks in their own neighbourhood, was a circumstance that the country bankers could not view with indifference. They declared that the Bank of England, and not themselves, had been the cause of the previous spirit of speculation; that the Bank of England, by their advances to government and loans on mortgage, had made excessive issues, and that now to extend their influence, at the expense of the country bankers, was to reward the guilty, and to punish the innocent. The country bankers had been accustomed to charge five per cent. on the bills they discounted, and at some places five or six shillings commission besides the discount, but the branches of the Bank of England charged only four per cent. without any commission. The country bankers were of course compelled to do business on the same terms, or to permit their customers to go to the branch. The chief advantage the country bankers possessed over the branch banks was, that they continued to allow interest on deposits, which the branch banks did not. But the additional confidence which was then possessed by the branch banks may, notwithstanding, have induced some depositors to give them a preference to the country bankers.

On December 7, the country bankers held a meeting at the London Tavern, Bishopsgate Street, where they passed several resolutions, and appointed a deputation to wait upon Lord Goderich, the first lord of the treasury, and Mr. Herries, the chancellor of the exchequer. Among other resolutions are the following:—

"That the late measures of the Bank of England in the establishment of branch banks have the evident tendency to subvert the general banking system that has long existed throughout the country, and which has grown up with, and been adapted to the wants and conveniences of the public.

"That it can be distinctly proved that the prosperity of trade, the support of agriculture, the increase of general improvement, and the productiveness of the national revenue, are intimately connected with the existing system of banking.

"That the country bankers would not complain of rival establish-

ments, founded upon equal terms; but they do complain of being required to compete with a great company, possessing a monopoly and exclusive privileges.

"That should this great corporation, conducted by directors who are not personally responsible, succeed, by means of these exclusive advantages, in their apparent object of supplanting the existing banking establishments, they will thereby be rendered masters of the circulation of the country, which they will be enabled to contract or expand according to their own will, and thus be armed with a tremendous power and influence, dangerous to the stability of property and the independence of the country."

At a meeting held at the same place, on the 16th of December, Sir John Wrottesley, Bart., M.P., the chairman, reported to the meeting the result of the interview of the deputation with Lord Goderich and the chancellor of the exchequer on that day, and read their answer as follows: "Lord Goderich and the chancellor of the exchequer state to the deputation, that they were fully sensible of the great importance of the subjects which were brought before them by the deputation; and that, although it was obviously impossible that they could undertake, on the part of the government, to express upon that occasion any opinion upon the matters under consideration, they could assure the deputation that all that had been communicated should receive the most deliberate and serious attention."

The country bankers complained, too, that the branch banks, instead of meeting them on the footing of equality, had refused to take their notes, unless the bankers had previously opened accounts with the branch banks, and provided funds for the purpose.

1828. Another subject of complaint on the part of the country bankers.—The Bank of England had always issued their notes and post-bills unstamped, in consideration of paying, as a composition for the stamp duties, 3500*l.* per annum on every 1,000,000*l.* in circulation. When the branches were established they issued bills, drawn upon the parent establishment in London at twenty-one days after date, without being stamped, alleging that these were included in their composition. At the same time the country

bankers could not draw bills upon London without paying the stamp duty. In a memorial, presented to the government by the bankers in the town and neighbourhood of Birmingham, it was shown that the stamp duty on a bill drawn at twenty-one days on London, is three shillings and sixpence, while under the composition the Bank of England would pay but fivepence; and that a circulation throughout the year of 10,000*l.*, in bills of exchange of 20*l.* each, would subject the Bank of England to a payment, in lieu of stamp duty, of only 35*l.*, while other banks would have to pay 650*l.* An Act of Parliament (9 Geo. IV. c. 23.), was accordingly passed, to enable country bankers to compound for their stamp duties on the same terms as the Bank of England, and to include bills drawn upon London at twenty-one days' date in the composition. By this law the country bankers have the advantage of paying duty only on the amount of notes in circulation.

1828. May 9. "The humble memorial of the country bankers in England and Wales," was presented to "the lords commissioners of his Majesty's treasury" against the branch banks. It concludes thus:

"Your memorialists therefore deeply regret that your lordships do not feel justified in adopting measures for the withdrawal of the branch banks, and they hope that your lordships will be pleased, as far as lies in your lordships' power, to prevent any interference with the business of your memorialists; and that your lordships will be pleased to institute an inquiry into the system of country banking, and take into your lordships' consideration the claims of the country bankers to be regarded as parties in the intended application for the renewal of the bank charter, and that no special privilege or monopoly be granted or continued to the Governor and Company of the Bank of England; but that they may be placed on a perfect equality with country bankers in the competition, which, by means of their branches, they are now carrying on with your memorialists."

The government replied, "that the interests of the country bankers should not be neglected in any negotiation between the government and the Bank of England for the renewal of the bank charter."

1830. The government reduced the interest on the new four per cent. stock to three and a half per cent. This stock

was formed in the year 1822, by the reduction of the navy five per cents. to four per cent. The holders had the option of receiving for every 100*l.* new four per cents. either 100*l.* stock at three and a half per cent., not redeemable until the year 1840, or 70*l.* at five per cent., not redeemable until the year 1873. Most of the holders chose the former. This stock is called "*new* three and a half per cent.," and amounts to above 139,000,000*l.* The other stock, formed by those who chose the 70*l.*, is called the new five per cents., and amounts to little more than 466,000*l.*

1831. "An account of the amount of silver coin melted; also the loss sustained by the Bank of England thereby, in 1831."

	£
Amount of silver coin melted in bars	565,000
Ditto, melted and re-coined	35,000
	£600,000

	£	s.	d.
Loss on sixpenny pieces	4,601	1	3
Loss on other denominations	62,982	19	2
	£67,584	0	5

1832. May 22. A committee of secrecy was appointed by the House of Commons, to inquire into the expediency of renewing the charter of the Bank of England, and into the system on which banks of issue in England and Wales are conducted.

The committee was composed of the following members:—

Lord Viscount Althorp	Mr. J. Smith	Mr. Haywood
Sir R. Peel, Bart.	Mr. Robarts	Lord Visct. Ebrington
Lord John Russell	Sir M. Ridley, Bart.	Mr. Lawley
Mr. Goulburn	Mr. Attwood	Sir J. Wrottesley, Bart.
Sir J. Graham, Bart.	Sir J. Newport, Bart.	Lord Cavendish
Mr. Herries	Mr. Baring	Mr. Alderman Wood
Mr. Poulett Thomson	Mr. Irving	Mr. Strutt
Mr. Courtenay	Mr. Warburton	Mr. Bonham Carter
Colonel Maberly	Mr. G. Phillips	Mr. E. J. Stanley
Sir H. Parnell, Bart.	Mr. J. Morrison	Mr. Ald. Thompson
Mr. Vernon Smith	Lord Viscount Morpeth	

On the 11th day of August the committee delivered the following report:—

"The secret committee appointed to inquire into the expediency of renewing the charter of the Bank of England, and into the system on which banks of issue in England and Wales are conducted, and to whom the petition of certain directors of joint-stock banking companies in England was referred, and who were empowered to report the minutes of evidence taken before them, have agreed upon the following report:—

"Your committee have applied themselves to the inquiry which the House has committed to them, by calling for all the accounts which appeared to them necessary for the purpose of elucidating the affairs of the Bank of England, and have examined evidence for the purpose of ascertaining the principles on which it regulates the issues of its notes, and conducts its general transactions. They feel bound to state that the directors of the Bank of England have afforded to them every facility in their power, and have most readily and candidly answered every question which has been put to them, and produced every account which has been called for. The committee have also examined such witnesses as appeared to them, from their practical knowledge and experience, most likely to afford information on the important subjects under their consideration, who have all been ready to give the committee the most ample information.

"The principal points to which they have directed their attention are—

"*First.*—Whether the paper circulation of the metropolis should be confined, as at present, to the issues of one bank, and that a commercial company; or whether a competition of different banks of issue, each consisting of an unlimited number of partners, should be permitted.

"*Secondly.*—If it should be deemed expedient that the paper circulation of the metropolis should be confined, as at present, to the issues of one bank, how far the whole of the exclusive privileges possessed by the Bank of England are necessary to effect this object.

"*Thirdly.*—What checks can be provided to secure for the public a proper management of banks of issue, and especially whether it would be expedient and safe to compel them periodically to publish their accounts.

"With respect to the circulation of paper in this country, the committee have examined,—*First,* into the effect produced by the establishment of the branch banks of the Bank of England; and *secondly,* into the expediency of encouraging the establishment of joint-stock banks of issue in the country.

"On all these, and on some collateral points, more or less information will be found in the minutes of evidence; but on no one of them is it so complete as to justify the committee in giving a decided opinion.

"The period of the session at which the committee commenced their labours, the importance and extent of the subjects, and the approaching close of the session, will sufficiently account to the house for the limited progress of the inquiry, and for the incompleteness of the materials which have been collected for the purpose of forming an opinion;—they have thought it better, therefore, to submit the whole of the evidence which they have taken, with a very few exceptions, to the consideration of the house.

"In their opinion, no public inconvenience will arise from this publication. The only parts of the evidence which they have thought it necessary to suppress, are those which relate merely to the private interests of individuals.

"The house will perceive that the committee have presented, as part of the evidence which they have taken, the actual amount of bullion at different times in the hands of the Bank of England. This information has never before been given to the public; it is, however, very essential to a complete knowledge of the subject, and if it had been suppressed by the committee, many parts of the evidence would have been unintelligible, and a false impression would have been produced in the minds of the public, that the bank were not so well provided with bullion as is desirable, which might have a very injurious effect. The house will, however, observe that the bank is amply provided with bullion at the present time; and it does not, therefore, appear to the committee that this information being now given to the public, can be productive of any injurious consequences.

"The committee, however, by no means wish it to be understood, from their having felt themselves called upon to include this evidence in their report, that they have formed any opinion as to the propriety of periodically publishing the affairs of this or of any other bank of issue. There appears to be a difference between a publication of the affairs of the bank when an inquiry is instituted for the purpose of deciding whether the bank charter shall be renewed or not, and a periodical publication during the course of its ordinary transactions.

"Of the ample means of the Bank of England to meet all its engagements, and of the high credit which it has always possessed and which it continues to deserve, no man who reads the evidence taken before this committee can for a moment doubt; for it appears that, in addition to the surplus rest in the hands of the bank itself, amounting to 2,880,000*l.*, the capital, on which interest is paid to the proprietors, and for which the State is debtor to the bank, amounts to 14,553,000*l.*, making no less a sum than 17,433,000*l.* over and above all its liabilities."

The following years were remarkable for a great increase in the profits of the bank—1786, 1796, 1800, 1805, 1806, 1814, 1815, 1816, 1822.

1786. In the year ending February, 1786, the profits were 976,194*l.*; being an increase of 124,970*l.* over that of the preceding year, and 122,540*l.* over the following year. We find that between the last day of February, 1785 and 1786, the circulation of notes had increased from 5,923,090*l.* to 7,581,960*l.*: this no doubt was the main cause of the profits; for the deposits, the public securities, and the private securities had all decreased; and what was also unfavourable, a considerable increase had taken place in the stock of bullion. It seems likely that this increase of bullion did not occur till the latter end of the year, and the diminution of profits in the following years arose from keeping up this large amount of bullion.

1796. This year the profits had increased from 887,668*l.* to 1,114,028*l.* A great reduction had taken place in the circulation in the course of this year; but this decrease had probably been gradual, so that there was a profit for a good part of the year on the large amount; and on the other hand, there was an increase of above 500,000*l.* in the private securities or discounts; and a much larger decrease in the stock of bullion. The diminution in the amount of bullion was about the same amount as the diminution of the circulation, and was no doubt occasioned by a demand for gold upon the bank, in consequence of the unfavourable state of the foreign exchanges. This issue of gold, while confined to the amount the bank had previously on hand, would not diminish their profits. The gold might as well be in circulation as be confined in the coffers of the bank.

1800. This year the profits increased from 942,568*l.* to 2,129,048*l.* By reference to Table II. we find there was a great increase in the circulation,—the public securities and the private securities,—and a diminution in the amount of bullion. All these are favourable to an increase of profits.

1805. In this year the profits were much larger than those of the preceding year, having increased from 1,109,938*l.* to 1,371,038*l.* This arose from a great increase in the deposits, and also in the public securities.

1806. The profits again increased from 1,371,038*l.* to 1,674,038*l.* The cause of this is not very evident. The circulation, and the private securities, and the amount of bullion, are about the same as the preceding year. A reduction of 2,000,000*l.* has also taken place in the public securities. We should imagine there would be a reduction of profit, rather than an increase. Possibly, however, the public securities, which were parted with, were sold at a much higher price than they cost, and hence might arise a considerable profit.

1814. The profits advanced from 1,494,620*l.* to 1,765,700*l.*, arising from an increase in the circulation, an increase in the deposits, and a considerable increase in the private securities.

1815. An increase of profits, arising from an increase in the circulation and in the public securities.

1816. An increase of profit, from 1,857,950*l.* to 2,172,410*l.* This profit seems to have risen chiefly from an increase in the private securities. Possibly some profit was also realized from the large reduction of the public securities. The profit on the increase in the deposits was not equivalent to the loss upon the increase of bullion.

1822. Here the profits rose from 1,092,780*l.* to 1,971,880*l.*, while every source of profit appears diminished. The circulation, the deposits, the public and the private securities, were all considerably less than in the preceding year: and the average stock of bullion much increased. The only way of accounting for this extraordinary profit, is to suppose that it was realized by the sale of public securities. They were reduced from 16,010,990*l.* to 12,478,133*l.*

I shall now notice those years in which there was a diminution of profits.

1790. In this year, the profits were only 671,438*l.*; and this, with an increase in the circulation, the deposits, and the public securities. But, on the other hand, there was a great falling off in the private securities, and an increase in the amount of bullion.

1798. The profits were only 841,068*l.* while the preceding year they amounted to 924,988*l.*, and the following year to 942,568*l.*, while there was a great increase in the circulation and the deposits. But there was also a great increase of bullion; from 1,086,170*l.* it was raised to 5,828,940*l.* This year, it will be recollected, was the period of the Bank Restriction Act being passed, and no doubt the bank went to great expense in order to obtain gold.

1804. The profits fell from 1,359,828*l.* to 1,109,938*l.*, notwithstanding an increase in the circulation, the deposits, and the public securities. There was, however, a diminution in the private securities.

1809. A fall in the profits from 1,481,670*l.* to 1,156,600*l.*, in consequence, it would appear, of a fall in the deposits.

1817. A fall of profit from 2,172,410*l.* to 1,316,780*l.*, in consequence of a fall in the deposits, and an immense fall in the private securities. There was also an increase in the amount of bullion. This was the first year after the termination of the war.

1818. In this year the profits fell still lower, being only 911,480*l.* There was a further fall in the deposits, and a still greater fall in the private securities. And also an increase in the average stock of bullion.

1819. The profits this year appear to be only 362,580*l.* notwithstanding a considerable increase in the private securities, and a great reduction in the stock of bullion. The bank returns are not sufficiently minute to enable us to account for this falling off. It may have been occasioned by losses, expenditure on bank buildings, &c., but we have no *data* upon which to form any conjecture on the subject.

1820. The profits, though still below the average, were a considerable

advance on the preceding year, notwithstanding a reduction in the deposits and in the private securities. It appears, however, that there was a considerable reduction in the average stock of bullion.

1828. The profits were reduced from 1,186,280*l.* to 917,670*l.*, in consequence of a reduction in the private securities, and an increase of bullion.

1830. An apparent fall of profits from 1,209,490*l.* to 930,790*l.* This, however, is only apparent; as a portion of the losses by Fauntleroy's forgeries, amounting to 250,000*l.*, were passed to the debit of the profit and loss account this year.

The profits of the bank are derived from the following sources:—First,—The interest on their capital, which is lent to the public at three per cent. Secondly,—The use of the rest, or surplus capital. Thirdly,—The use of the capital raised by the circulation and the deposits. Fourthly,—The allowance they receive as agents for transacting the business of the government. There is another source of profit, arising from the accidental destruction of notes that are in circulation. The amount cannot be ascertained; but it may be presumed from the following account, that the sum is not inconsiderable:—

An Account of the Amount of Bank Notes in circulation, of dates beyond five, ten, fifteen, and twenty years respectively:—

	£
Bank notes of 5*l.* and upwards, and post bills outstanding, dated prior to 1st January, 1812	280,380
Ditto, dated between 1st January, 1812, and 1st January, 1817	95,600
Ditto, dated between 1st January, 1817, and 1st January, 1822	149,860
Ditto, dated between 1st January, 1822, and 1st January, 1827	511,490
Bank notes of 5*l.* and upwards, and post bills	1,037,330
The Bank are unable to state what amount of 1*l.* and 2*l.* notes is outstanding of the dates above specified, but the present amount is	297,000

An Account of all Distributions made by the Bank of England amongst the proprietors of bank stock, whether by money payments, transfer of five per cent. annuities, or otherwise, under the heads of bonus, increase of dividend, and increase of capital, betwixt the 25th February, 1797, and 31st March, 1832, in addition to the ordinary dividend of seven pounds per cent. on the capital stock of that corporation existing in 1797; including therein the whole dividend paid since June, 1816, on their increased capital, stating the period when such distributions were made and the aggregate amount of the whole:—

	£
In June, 1799, 10*l.* per cent. bonus in Five per Cents. 1797, on 11,642,400*l.* is	1,164,240
May, 1801, 5*l.* ditto Navy Five per Cents. ditto . . .	582,120
Nov., 1802, 2½*l.* ditto ditto ditto . . .	291,060
Oct., 1804, 5*l.* ditto Cash ditto . . .	582,120
Oct., 1805, 5*l.* ditto ditto ditto . . .	582,120
Oct., 1806, 5*l.* ditto ditto ditto . . .	582,120
From April, 1807, to Oct., 1822, both inclusive . . Increase of dividend at the rate of 3*l.* per cent. per annum, on 11,642,400*l.*, is 16 years . . .	5,588,352
From April, 1823, to Oct., 1831, both inclusive . . Increase of dividend at the rate of 1*l.* per cent. per annum on 11,642,400*l.*, is 9 years	1,047,816
In June, 1816, increase of capital at 25*l.* per cent. is	2,910,600
From Oct., 1816, to Oct., 1822, both inclusive . . Dividend at the rate of 10*l.* per cent. per annum on 2,910,600*l.* increased capital is 6½ years . .	1,891,890
From April, 1823, to Oct., 1831, both inclusive . . Dividend at the rate of 8*l.* per cent. per annum on 2,910,600*l.* increased capital is 9 years . . .	2,095,632
Aggregate amount of the whole	17,318,070
Annual dividend payable on Bank Stock in 1797, on a capital of 11,642,400*l.*, at the rate of 7*l.* per cent. per annum . . .	814,968
Annual dividend payable since June, 1816, on a capital of 14,553,000*l.* to October, 1822, inclusive, at the rate of 10*l.* per cent. per annum	1,455,300
Annual dividend payable from April, 1823, to 31st March, 1832, both inclusive, on a capital of 14,553,000*l.*, at the rate of 8*l.* per cent. per annum	1,164,240

1833. May 31. A meeting of the proprietors of bank stock was held at the Bank of England, to receive a communi-

cation from the court of directors, of the result of the negotiation with his Majesty's government, respecting the renewal of the bank charter. The following letter from Lord Althorp, the Chancellor of the Exchequer, was read by the secretary:—

"Downing Street, May 2, 1833.

"GENTLEMEN,

"After duly considering the conversation I have had with you, the substance of which I have reported to my colleagues, his Majesty's government have directed me to make the following proposals to you for the purpose of renewing the bank charter.

"1. We propose to renew the charter for twenty-one years, subject, however, to this condition:—that if at the end of ten years the then existing government should so think fit, they may give a twelvemonth's notice to the bank that the charter shall expire at the end of eleven years.

"2. That no banking company consisting of more than six partners shall issue notes payable on demand within the metropolis, or within sixty-five miles from the metropolis. Banking companies, however, consisting of any number of partners established at a greater distance from the metropolis than sixty-five miles, shall have the right to draw bills on London without restriction as to their amounts, and to issue notes payable in London.

"3. Bank of England notes shall be a legal tender, except at the Bank of England, or at any of its branches.

"4. Bills not having more than three months to run before they become due, shall not be subject to the usury laws.

"5. An account, similar to that laid before the bank committee, of the amount of bullion and securities in the hands of the bank, and of the amount of notes in circulation, and of the deposits in the hands of the bank, shall be transmitted, as a confidential paper, weekly, to the Chancellor of the Exchequer: these accounts shall be consolidated at the end of each quarter, and the average state of the bank accounts for the preceding quarter published quarterly in the Gazette.

"A bill will also be introduced into Parliament, with the view of regulating country banks. The provisions of this measure will be such as to hold out an inducement to the establishment of joint-stock banks who will not issue their own notes.

"His Majesty's government desire me to call your attention to the advantages which these different propositions are likely to confer upon the bank. Their tendency must be to extend the circulation of its notes, and by relieving bills at short dates from the usury laws to facilitate its operations. While, on the other hand, the only relaxation in its exclusive privileges as they at present exist, which is required—is the permission given to joint-stock banks, established at a greater dis-

tance than sixty-five miles from the metropolis, to draw bills and to issue notes payable in London. His Majesty's government, therefore, think that they have a right to expect some considerable pecuniary advantages from the bank in the management of the government business. They consequently propose that government should repay to the bank twenty-five per cent. of the debts of 14,500,000*l.* now due, and that the bank should deduct from the payments made to them from the government for the transaction of the government business the annual sum of 120,000*l.*

"I hope that this proposal will be satisfactory to the bank directors, and that by making this arrangement an end may be speedily put to the suspense now existing.

"I have the honour to be,
"Gentlemen,
"Your most obedient humble Servant,
"ALTHORP.

"To the Governor and Deputy-Governor
of the Bank of England."

After some discussion, the further consideration of this letter was adjourned to a future meeting.

In the same evening Lord Althorp brought forward the subject in the House of Commons. Besides the measures that were connected with the Bank of England, he announced the measures for regulating country banks. These were—

1. That government should have the power of granting charters to joint-stock banks issuing notes beyond sixty-five miles from London, and to joint-stock banks within the sixty-five miles, provided they issued only the notes of the Bank of England.

2. That the joint-stock banks which issued notes should be required to pay up one-half of their capital, and all the shareholders be answerable individually to the full extent of their property.

3. That the joint-stock banks which did not issue their own notes, should be required to pay up only one-fourth of their capital, and the shareholders be responsible only to the amounts of their shares.

4. That the government when granting the charter should have the power to decide whether the amount of capital subscribed was a sufficient amount for the place in which the bank was situated.

5. That each private bank should be required to send a statement of its accounts to the government in London, as a strictly confidential paper, which was not to be published in a separate form, but the accounts being added together, the total result should be given to the public periodically.

6. That to enable the government to know the total amount of notes in circulation, each private bank, as well as each joint-stock bank, should be compelled to compound for the stamp duties.

The Bank of England proprietors agreed, at a subsequent meeting, to the measures which had a reference to them. But the country bankers expressed great dissatisfaction; and on the 12th of June, they presented a memorial to Earl Grey, the First Lord of the Treasury, and to Lord Althorp, the Chancellor of the Exchequer, upon the subject. In consequence of the opposition of the country bankers, Lord Althorp postponed his measures for the regulation of the private and joint-stock banks, and carried forward his plan for the renewal of the charter of the Bank of England. The following bill was ultimately passed into a law:—

An Act for giving to the corporation of the Governor and Company of the Bank of England certain privileges, for a limited period, under certain conditions, was passed August 29, 1833.

"Whereas an Act was passed in the 39th and 40th years of the reign of his Majesty King George III., entitled an Act for establishing an agreement with the Governor and Company of the Bank of England, for advancing the sum of 3,000,000*l.* towards the supply for the service of the year 1800: and whereas it was by the said recited Act declared and enacted, that the said governor and company should be and continue a corporation, with such powers, authorities, emoluments, profits, and advantages, and such privileges of exclusive banking as are in the said recited Act specified, subject nevertheless to the powers and conditions of redemption, and on the terms in the said Act mentioned; and whereas an Act passed in the 7th year of the reign of his late Majesty King George IV., entitled an Act for the better regulating co-partnerships of certain bankers in England, and for amending so much of an Act of the 39th and 40th years of the reign of his late Majesty King George III., intituled an Act for establishing an agreement with the Governor and Company of the Bank of England for advancing the sum of 3,000,000*l.* towards the supply for the service of the year 1800, as relates to the same: and whereas it is expedient that certain privileges

of exclusive banking should be continued to the said governor and company for a further limited period, upon certain conditions; and whereas the said Governor and Company of the Bank of England are willing to deduct and allow to the public, from the sums now payable to the said governor and company for the charges of management of the public unredeemed debt, the annual sum hereinafter mentioned, and for the period in this Act specified, provided the privilege of exclusive banking specified in this Act is continued to the said governor and company for the period specified in this Act."

Bank of England to enjoy an exclusive privilege of banking upon certain conditions:—

"May it therefore please your Majesty, that it may be enacted, and be it enacted by the King's most excellent Majesty, by and with the advice and consent of the lords spiritual and temporal, and commons, in this present Parliament assembled, and by the authority of the same, that the said Governor and Company of the Bank of England shall have and enjoy such exclusive privilege of banking as is given by this Act, as a body corporate, for the period and upon the terms and conditions hereinafter mentioned, and subject to termination of such exclusive privilege at the time and in the manner in this Act specified."

During such privilege, no banking company of more than six persons to issue notes payable on demand, within London or sixty-five miles thereof:—

"And be it further enacted, that during the continuance of the said privilege, no body politic or corporate, and no society, or company, or persons united or to be united in covenants or partnerships, exceeding six persons, shall make or issue in London, or within sixty-five miles thereof, any bill of exchange or promissory note, or engagement for the payment of money on demand, or upon which any person holding the same may obtain payment on demand, provided always, that nothing herein or in the said recited Act of the 7th year of the reign of his late Majesty King George IV. contained shall be construed to prevent any body politic or corporate, or any society or company, or incorporated company or corporation, or co-partnership, carrying on and transacting banking business at any greater distance than sixty-five miles from London, and not having any house of business or establishment as bankers in London, or within sixty-five miles thereof (except as hereinafter mentioned), to make and issue their bills and notes, payable on demand or otherwise, at the place at which the same shall be issued, being more than sixty-five miles from London, and also in London, and to have an agent or agents in London, or at any other place at which such bills or notes shall be made payable for the purpose of payment only, but no such bill or note shall be for any sum less than 5*l.*, or be re-issued in London, or within sixty-five miles thereof."

Any company or partnership may carry on the business of banking in London, or within sixty-five miles thereof, upon the terms herein mentioned :—

"3. And whereas the intention of this Act is, that the Governor and Company of the Bank of England should, during the period stated in this Act (subject, nevertheless, to such redemption as is described in this Act), continue to hold and enjoy all the exclusive privileges of banking given by the said recited Act of the 39th and 40th years of the reign of his Majesty King George III. aforesaid, as regulated by the said recited Act of the 7th year of his late Majesty King George IV., or any prior or subsequent Act or Acts of Parliament, but no other or further exclusive privilege of banking: and whereas doubts have arisen as to the construction of the said Acts, and as to the extent of such exclusive privilege; and it is expedient that all such doubts should be removed, *be it therefore declared and enacted, that any body politic or corporate, or society, or company, or partnership, although consisting of more than six persons, may carry on the trade or business of banking in London, or within sixty-five miles thereof, provided that such body politic or corporate, or society, or company, or partnership, do not borrow, owe, or take up in England, any sum or sums of money on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof, during the continuance of the privileges granted by this Act to the said Governor and Company of the Bank of England.*"

All notes of the Bank of England payable on demand, which shall be issued out of London, shall be payable at the place where issued, &c. :—

"4. Provided always, and be it further enacted, that from and after the 1st day of August, 1834, all promissory notes payable on demand of the Governor and Company of the Bank of England, which shall be issued at any place in that part of the United Kingdom called England, out of London, where the trade and business of banking shall be carried on for and on behalf of the said Governor and Company of the Bank of England, shall be made payable at the place where such promissory notes shall be issued; and it shall not be lawful for the said governor and company, or any committee, agent, cashier, officer, or servant of the said governor and company, to issue, at any such place out of London, any promissory note payable on demand which shall not be made payable at the place where the same shall be issued, anything in the said recited Act of the seventh year aforesaid, to the contrary notwithstanding."

Exclusive privileges hereby given, to end upon one year's notice, given at the end of ten years after August, 1834; and what shall be deemed sufficient notice :—

"5. And be it further enacted, that upon one year's notice given within six months after the expiration of ten years from the 1st day of

August, 1834, and upon repayment by Parliament to the said governor and company, or their successors, of all principal money, interest, or annuities, which may be due from the public to the said governor and company at the time of the expiration of such notice, in like manner as is hereinafter stipulated and provided, in the event of such notice being deferred until after the 1st day of August, 1855, the said exclusive privileges of banking granted by this Act shall cease and determine at the expiration of such year's notice; and any vote or resolution of the House of Commons, signified by the Speaker of the said House in writing, and delivered at the public office of the said governor and company, or their successors, shall be deemed and adjudged to be a sufficient notice."

Bank notes to be a legal tender, except at the bank and branch banks:—

"6. And be it further enacted, that from and after the 1st day of August, 1834, unless and until Parliament shall otherwise direct, a tender of a note or notes of the Governor and Company of the Bank of England, expressed to be payable to bearer on demand, shall be a legal tender, to the amount expressed in such note or notes, and shall be taken to be valid as a tender to such amount for all sums above 5*l.* on all occasions on which any tender of money may be legally made, so long as the Bank of England shall continue to pay on demand their said notes in legal coin: provided always, that no such note or notes shall be deemed a legal tender of payment by the Governor and Company of the Bank of England, or any branch bank of the said governor and company; but the said governor and company are not to become liable or be required to pay and satisfy, at any branch bank of the said governor and company, any note or notes of the said governor and company not made specially payable at such branch bank; but the said governor and company shall be liable to pay and satisfy at the Bank of England in London all notes of the said governor and company, or of any branch thereof."

Bills not having more than three months to run, not to be subject to usury laws:—

"7. And be it further enacted, that no bill of exchange or promissory note made payable at or within three months after the date thereof, or not having more than three months to run, shall, by reason of any interest taken thereon or secured thereby, or any agreement to pay, or receive, or allow interest in discounting, negotiating, or transferring the same, be void, nor shall the liability of any party to any bill of exchange or promissory note be affected by reason of any statute or law in force for the prevention of usury, nor shall any person or persons drawing, accepting, indorsing, or signing any such bill or note, or lending or advancing any money, or taking more than the present rate of legal interest in Great Britain and Ireland respectively for the loan of money on any such bill or note, be subject to any penalties under any statute

or law relating to usury, or any other penalty or forfeiture; anything in any law or statute relating to usury in any part of the United Kingdom to the contrary notwithstanding."

Accounts of bullion, &c., and of notes in circulation to be sent weekly to the Chancellor of the Exchequer, &c. :—

"8. And be it further enacted, that an account of the amount of bullion and securities in the Bank of England belonging to the said governor and company, and of notes in circulation, and of deposits in the said bank, shall be transmitted weekly to the Chancellor of the Exchequer for the time being, and such accounts shall be consolidated at the end of every month, and an average state of the bank accounts of the preceding three months, made from such consolidated accounts as aforesaid, shall be published every month in the next succeeding London Gazette."

Public to pay the bank one-fourth part of the debt of 14,686,800*l.* :—

"9. And be it further enacted, that one-fourth part of the debt of 14,686,800*l.* now due from the public to the Governor and Company of the Bank of England, shall and may be repaid to the said governor and company."

Capital stock of the bank may be reduced :—

"10. And be it further enacted, that a general court of proprietors of the said Governor and Company of the Bank of England shall be held at some time between the passing of this Act and the 5th day of October, 1834, to determine upon the propriety of dividing and appropriating the sum of 3,638,250*l.*, out of or by means of the sum to be repaid to the said governor and company as hereinbefore mentioned, or out of or by means of the fund to be provided for that purpose, amongst the several persons, bodies politic or corporate, who may be proprietors of the capital stock of the said governor and company on the said 5th day of October, 1834, and upon the manner and the time for making such division and appropriation, not inconsistent with the provisions for that purpose herein contained; and in case such general court, or any adjourned general court, shall determine that it will be proper to make such division, then, but not otherwise, the capital stock of the said governor and company shall be, and the same is hereby declared to be reduced from the sum of 14,553,000*l.*, of which the same now consists, to the sum of 10,914,750*l.*, making a reduction or difference of 3,638,250*l.* capital stock, and such reduction shall take place from and after the said 5th day of October, 1834; and thereupon out of or by means of the sum to be repaid to the said governor and company as hereinbefore mentioned, or out of or by means of the fund to be provided for that purpose, the sum of 3,638,250*l.* sterling, or such proportion of the said fund as shall represent the same, shall be appropriated and divided

amongst the several persons, bodies politic or corporate, who may be proprietors of the said sum of 14,553,000*l.* bank stock on the said 5th day of October, 1834, at the rate of 25*l.* sterling for every 100*l.* of bank stock which such persons, bodies politic and corporate, may then be proprietors of, or shall have standing in their respective names in the books kept by the said governor and company for the entry and transfer of such stock, and so in proportion for a greater or lesser sum."

Governor, duputy-governor, or directors, not to be disqualified by reduction of their share of the capital stock:—

"11. Provided always, and be it enacted, that the reduction of the share of each proprietor of and in the capital stock of the said Governor and Company of the Bank of England, by the repayment of such one-fourth part thereof, shall not disqualify the present governor, deputy-governor, or directors, or any or either of them, or any governor, deputy-governor, or director who may be chosen in the room of the present governor, deputy-governor, or directors at any time before the general court of the said governor and company, to be held between the 25th day of March and the 25th day of April, 1835: provided that at the said general court, and from and after the same, no governor, deputy-governor, or director of the said corporation shall be capable of being chosen such governor, deputy-governor, or director, or shall continue in his or their respective offices, unless he or they respectively shall at the time of such choice have, and during such his respective office continue to have, in his and their respective name, in his and their own right, and for his and their own use, the respective sums or shares of and in the capital stock of the said corporation in and by the charter of the said governor and company prescribed as the qualification of governor, deputy-governor, and directors respectively."

Proprietors not to be disqualified:—

"12. Provided also, and be it enacted, that no proprietor shall be disqualified from attending and voting at any general court of the said governor and company, to be held between the said 5th day of October, 1834, and the 25th day of April, 1835, in consequence of the share of such proprietor of and in the capital stock of the said governor and company having been reduced by such repayment as aforesaid below the sum of 500*l.* of and in the said capital stock; provided such proprietor had in his own name the full sum of 500*l.* of and in the said capital stock on the said 5th day of October, 1834; nor shall any proprietor be required, between the said 5th day of October, 1834, and the 25th day of April, 1835, to take the oath of qualification in the said charter."

Bank to deduct the annual sum of 120,000*l.* from sum allowed for management of national debt:—

"13. And be it further enacted, that from and after the said 1st day of August, 1834, the said governor and company, in consideration of the

privileges of exclusive banking given by this Act, shall, during the continuance of such privileges, but no longer, deduct from the sums now payable to the said governor and company, for the charges of management of the public unredeemed debt, the annual sum of 120,000*l.*, anything in any Act or Acts of Parliament or agreement to the contrary notwithstanding: provided always that such deduction shall in no respect prejudice or affect the right of the said governor and company to be paid for the management of the public debt, at the rate and according to the terms provided in an Act passed in the 48th year of his late Majesty King George III., intituled 'An Act to authorize the advancing for the public service, upon certain conditions, a proportion of the balance remaining in the Bank of England, for payment of unclaimed dividends, annuities, and lottery prizes, and for regulating the allowances to be made for the management of the national debt.'"

Provisions of Act 39 and 40 Geo. III. to remain in force, except as altered by this Act:—

"14. And be it further enacted, that all the powers, authorities, franchises, privileges, and advantages given or recognized by the said recited Act of the 39th and 40th years aforesaid, as belonging to or enjoyed by the Governor and Company of the Bank of England, or by any subsequent Act or Acts of Parliament, shall be and the same are hereby declared to be in full force and continued by this Act, except so far as the same are altered by this Act, subject, nevertheless, to such redemption upon the terms and conditions following; (that is to say), that at any time, upon twelve months' notice, to be given after the 1st day of August, 1855, and upon repayment by parliament to the said governor and company, or their successors, of the sum of 11,015,100*l.*, being the debt which will remain due from the public to the said governor and company after the payment of the one-fourth of the debt of 14,686,800*l.* as hereinbefore provided, without any deduction, discount, or abatement whatsoever, and upon payment to the said governor and company and their successors of all arrears of the sum of 100,000*l.* per annum, in the said Act of the 39th and 40th years aforesaid mentioned, together with the interest or annuities payable upon the said debt or in respect thereof, and also upon repayment of all the principal and interest which shall be owing unto the said governor and company and their successors, upon all such tallies, exchequer orders, exchequer bills, or parliamentary funds which the said governor and company or their successors shall have remaining in their hands, or be entitled to at the time of such notice to be given as last aforesaid, then and in such case, and not till then (unless under the proviso hereinbefore contained), the said exclusive privileges of banking granted by this Act shall cease and determine at the expiration of such notice of twelve months."

Act may be amended this session:—

"15. And be it further enacted, that this Act may be altered,

amended, or repealed by any Act to be passed in this session of parliament."

The government of the bank rests entirely with the court of directors, who may, if they please, change the whole system of management. The only check upon their proceedings consists in the publicity of their measures, the half-yearly meetings of their proprietors, and the communications between the court and the government. The directors are elected by the proprietors of bank stock at a general meeting. Eight directors go out and eight come in every year. The eight that come in are commended by the whole court—that is, a "house list" is sanctioned by the court; and though the proprietors are not required to vote for the names included in the list, yet these persons have always been elected. The qualification for governor is 4000*l.* bank stock; deputy-governor, 3000*l.*; director, 2000*l.* The directors are not usually large holders of bank stock: none of them hold more than the qualification. The governor and deputy-governor are appointed by the directors, and usually continue in office for a year. The senior directors of the bank, who have passed the chair, form a select committee: to these are added, the director immediately succeeding by rotation to the deputy chair. The governor and the select committee have the management of the bank in the intervals between the sittings of the court, but nothing of consequence is done without the knowledge and concurrence of the court of directors.

At the weekly meeting of the court of directors there is a statement read of the actual position of the bank in every department, of its securities, of its bullion, and of its liabilities. There is a committee of treasury, who may suggest any measure they think fit for the consideration of the court. The daily transactions of the bank are conducted by a committee of three, assisted by the governor or deputy-governor: no responsible action is taken by the committee without reference to the governor. All bills presented for discount are presented before that daily committee, and they determine upon the bills to be discounted. The bullion is purchased by the governor, who considers that he has no power

to refuse the issue of notes for gold bullion brought to him at the bank. The purchasing price of gold has been fixed at 3*l.* 17*s.* 9*d.* per ounce. The price of silver is regulated by the course of the foreign exchanges.

SECTION IV.

THE LONDON BANKERS.

After the establishment of the Bank of England, the goldsmiths or "new-fashioned bankers" continued their business in the same manner as before. In the year 1705 they obtained greater facilities, from an alteration in the laws respecting promissory notes. It had been held that promissory notes, whether issued by bankers or others, could not be legally transferred to a third party, and that no action at law could be sustained against the issuer, unless brought by the person to whom the note was originally granted. But, by 3 and 4 Anne, c. 9, all doubts were removed; and it was enacted, that after the 1st of May, 1705, all notes in writing made and signed by any person or persons, bodies politic or corporate, or by the servant or agent of any corporation, banker, goldsmith, merchant, or trader, who is usually entrusted to sign such promissory notes, shall be assignable or endorsable over, in the same manner as inland bills of exchange.

In the year 1714, the legal interest of money was reduced from six to five per cent. The reduction of the rate of interest was probably the effect of the abundance of money produced by the issue of Bank of England notes, and the increase of deposits with the private bankers. The various small sums of money which had remained idle in the hands of individuals were collected into large deposits in the hands of the bankers. Hence the supply of capital was increased, and the rate of interest consequently fell.

About the year 1775, the London bankers who lived in the city, established what is called "the clearing house," for the

purpose of facilitating their exchanges with each other. By this means each banker is enabled to pay the cheques drawn upon himself by the cheques he holds upon other bankers. And hence he is not under the necessity of keeping so large an amount of money unemployed in his till.*

The London banks have long ceased to be banks of circulation: they are now banks of deposit, banks of discount, and banks of agency to country bankers.

The oldest banking houses in London, are Messrs. Child & Co. of Temple Bar, and Messrs. Hoares, of Fleet Street; these were established previous to the Bank of England. The others are comparatively of recent date. In the year 1810 the number of banking houses who settled their accounts with each other at the clearing-house was forty-six.

SECTION V.

COUNTRY BANKS.

We have no authentic details of the rise and progress of country banking. It is generally understood that very few country banks existed previous to the American war; that they rapidly increased after the termination of that war; that they received a severe check in the year 1793, when twenty-two became bankrupt; and that they increased with wonderful rapidity after the passing of the Bank Restriction Act.

The country banks are banks of deposit, banks of discount, and banks of remittance; many of them are also banks of circulation.

As banks of deposit, they allow interest upon deposits; as banks of discount, they discount for parties who do not keep with them a current account; as banks of remittance, they conduct their business through the agency of the London bankers; they also receive through the London agents the dividends on the public funds, on account of the stockholders

* For a full account of the operation of *clearing*, and of the London bankers' system of book-keeping, see Gilbart's Practical Treatise on Banking.

in the neighbourhood. The holders of stock grant in the first instance to the London banker a power of attorney to receive the dividends, which, when received, are placed to the credit of the country banker, by whom they are paid to the holders. This facility of receiving dividends in all parts of the country, has, no doubt, induced many persons to become holders of government securities, and thus the country banks have assisted in supporting public credit.

The country banker pays his London agent either by a *balance*, by a *commission*, or by an *annual fixed amount*. In the case of a balance, the country banker agrees to keep in the hands of the London banker a certain sum, for which he is to receive no interest. The amount of this deposit varies, according to the extent of the business. If the country banker keeps less than the stipulated amount, he is charged interest for the deficiency, as upon an overdrawn account. If he keeps more than this amount, he is usually allowed interest at a rate per cent. which is agreed upon by the parties. In the case of a commission, the country banker pays at the end of each year a certain rate of commission on the transactions of the year; the charge is made upon the amount of the debit side of his account. Some country bankers, instead of a commission, prefer paying a fixed sum per annum. In this case the charge does not vary with the amount of transactions as in the case of commission, but whether the transactions be great or small the payment remains the same.

By 3 and 4 William IV. c. 83, passed in 1833, banks issuing promissory notes are required to make returns to the Stamp Office of the average amount of notes in circulation in the quarters ending the first day of January, April, July, and October in each year. The quarterly average is to be formed from the amount in circulation at the end of each week.

In the memorial presented by the committee of country bankers to Earl Grey and Lord Althorp, June 12, 1833, they make the following observations upon the circulation of the country banks:—

"Your memorialists are prepared to prove that the issues of country bankers have less tendency to promote fluctuations in the country than

those of the Bank of England; and that their effect in throwing the exchanges against the country is comparatively insignificant. The slightest attention to facts would indicate the truth of these positions. It has been established by parliamentary evidence that the issues of country bankers fluctuated much less between the years 1817 and 1826 than those of the Bank of England; and it is indisputable that adverse exchanges, which endanger the bank, always succeed great importations of foreign produce, and that they never can be occasioned by large exportations of domestic productions. Now it is notorious that the circulation of country bankers acts almost exclusively in promoting these productions: and that, when it is in an extended state, the direct and proper influence even of an alleged excess of that circulation, would be to provide the means of paying for the importations of foreign produce without causing so great an export of gold as to derange and endanger the monetary system of the country. This is looking at the separate and distinctive character of the issues of country bankers; if regarded as a part of a whole, any excess in which must bear its relative proportion of effect in producing derangement, that proportion can never exceed one-tenth; because, assuming that all paper currency has an equal bearing upon depreciation and appreciation, the issues of country bankers never amounted to one-tenth part of that which is used for effecting the interchanges of commodities and property in the country. All experience shows that great fluctuations have originated in the speculations of influential merchants, and never originated in the channels to which the issues of country bankers are confined; their source is in great mercantile cities, and they are promoted by the issues of the Bank of England. That this is the invariable course which fluctuations resulting in excess and derangement take, is proved by the evidence of Mr. Ward and others, before the bank charter committee, and is fully explained by the speeches of the king's ministers in the year 1826. The debts of a few speculative merchants who failed in a single year in the town of Liverpool, where country bankers' notes never circulated, amounted to between seven and eight millions sterling, and their bills were either lodged in the Bank of England for loans, or were current in all parts of the country, stimulating circulation and promoting excess.

"Then, with regard to the alleged tendency of many sources of issue to promote fluctuation—the rivalry of numerous banks of issue was set up by the government of 1826 as a principle which insures solidity and equability to the circulation, 'from the constant exchange of notes between the different banks, by which they become checks upon each other, and by which any over-issue is subject to immediate observation and detection.' That was the report of the lords' committee, after full and complete investigation. The government of 1833 is proceeding with a measure founded on the principle that rival banks of issue

promote fluctuation; this, however, is before investigation. Deposits and cash credits were declared by the witnesses from Scotland to be absolutely dependent on local bank issues, and the government of 1826 admitted the validity of the plea; the government of 1833 concludes that the system of deposits and cash credits may be maintained in England without local issues, but this conclusion is adopted without any inquiry into the case. It would be fruitless to dwell on this contradictory conduct in two administrations professing to be guided, in dealing with the currency, by the same policy. Admitting that by one source of issue, the actual amount of notes payable on demand might be kept more equal than by many, it does not follow that their distribution would not be infinitely more unequal—every man possessed of practical information who understands the subject knows that by giving the exclusive circulation of notes to the Bank of England abundance will be created in the money market, and in the great commercial emporiums—raising the price of public securities, and stimulating the produce markets—while unexampled scarcity will be the consequence in the country, producing embarrassment and discontent among the cultivators of the soil and all who are dependent upon them. Therefore the real practical point to be determined concerning the tendency of different issues is, whether 2,000,000*l.*, or any given sum, laid out in purchasing French rentes in Paris, and indigo in Calcutta, or in replenishing with stock the exhausted corn and pasture fields of England, have the most effect in drawing gold out of the country. It is hardly possible to imagine any measure of greater danger than the projected plan of government. The present bank directors may be men of unimpeachable integrity; but others less scrupulous may succeed them; and it is within the range of possibility for a man of influence who had obtained a seat at their board, to make a speculation by purchasing indigo in Calcutta, and then proceed to stimulate the market for that commodity in London, just before the sale at the East India House, by discounting the bills of favoured connexions; then, at nearly the same period, he might cause instructions to be given to the manager of the branch bank in Manchester to contract the customary and stipulated discounts; which would have the effect of depressing the market for cotton twist and piece goods, which are the principal commodities transmitted to India in exchange for the produce of that country. By this double operation the produce of a director's capital employed in Hindostan might be temporarily raised in price in the London market, and the produce of English capital and labour sunk to favour the interests of one bank director or of several. The same result might be produced by the importer of Baltic produce: indeed, the importation of corn in 1831 probably created that state of things, which suggested to the government the plan of suppressing all local issues as the remedy for an alleged evil in the country bank system. It is hardly necessary to disclaim all personal

imputation in this illustration. The Chancellor of the Exchequer has taken the self-interest of country bankers to be an element of so much danger, from its tendency to induce them to extend their issues, as to adopt it as a principle in framing a legislative measure of the most hazardous character. Is the danger of the operation of the same principle to be disregarded when it might be exercised, not in a manner where it would be open to 'immediate operation and correction,' but in secret, where it could not be detected and challenged? The history of national banks proves that their funds may be applied by their directors to far more daring private speculations than is described by this suppositious case.

"If all bankers should be compelled to supply their customers with the notes of the Bank of England, a charge of seven per cent. for the interest of loans to graziers, farmers, and dealers in agricultural produce, would not remunerate the country bankers so well as four or five per cent. does now upon the present system. The contemplated change in the usury laws, which if intended to afford to your memorialists some advantage for that which it is intended to deprive them, would give them some satisfactory compensation, because its tendency is to disorder or change that system upon which loans are made by country bankers with promptitude, facility, and comparative uniformity and cheapness; the distinctive characteristics of their business are regularity and the absence of extortionary charges.—In the event of the subversion of that system it would be impossible for a great corporation, forming rules of conduct in London, and thence directing their application, to appoint agents competent to conduct the pecuniary affairs of the productive portion of the community. Those affairs, as far as banks are concerned with them, always demand peculiar local knowledge, and are in a great measure based on the confidential intercourse of fellowship and neighbourhood; they frequently require personal knowledge of the circumstances and character of individuals, and the closest sympathy with feelings arising from family difficulties, or family expectations and prospects. The governing principles, therefore, for conducting those important pecuniary affairs are totally incompatible with any that can govern the conduct of an hired agent in attempting to conduct the same. From these premises it results that the free application of labour to land would be prevented, the cost of cultivation enhanced, markets and the sale of produce impeded, and the pursuits of agriculture deeply injured.

"Then with respect to miners and manufacturers, any system which would bring them into immediate contact with the operation of the bank for regulating the foreign exchanges, without that protection and defence from those convulsive changes which the local circulations afford, would be a system pregnant with indescribable hazard. Many of the bank directors are connected by friendship or commercial dealings with the

great speculators in London and the populous towns, whose transactions mainly cause excess of circulation and an adverse state of the exchanges. In this class any contraction of the paper currency for the rectification of derangement, upon the present system, acts; but upon the projected plan, parliamentary evidence, as well as the nature of things, shows that the contracting force will be put into operation by the branch bank managers at a distance from London, and produce confusion in the affairs of mining and manufacturing industry, and discontent among a dense and excitable population. It may, under such a state of things, be rationally apprehended that occasions will arise when workmen will be suddenly dismissed for the want of the power to pay them their wages, shopkeepers deprived of their weekly receipts, and the regular custom at markets for the supply of agricultural produce, impaired."

In reply to a question, "What effect do you suppose that an increase or decrease of London bank notes has upon the issues of country bankers?" J. H. Palmer, Esq., replied:—

"A material increase of the bank in London tends, in the first instance, to reduce the value of money, and, consequently, the rate of interest, upon all negotiable securities. That abundance of money renders it difficult for the country bankers to find beneficial investment for that part of the country money sent up to the capital for employment, consequently they are forced to resort to their immediate neighbourhoods for new channels for investing their surplus money; and which tends to create additional issues in the country at an early period after the London increase has taken place. But it does not follow that a diminution of issues has an equally rapid effect in reducing the issues of the interior."

SECTION VI.

JOINT-STOCK BANKS.

In the year 1708, a clause was inserted in the charter of the Bank of England, prohibiting the establishment of any other bank having more than six partners. This clause prevented the formation of any other joint-stock bank; and, as the increasing wealth and commerce of the nation occasioned a demand for banks of some sort, a great number of banks, each having no more than six partners, rose into existence, as they were successively required by the wants of the country.

The charter of the Bank of England had no reference to Scotland, which at that period was a separate kingdom. Hence, with the increasing wealth of Scotland, joint-stock banking companies were formed; and at present they conduct nearly the whole of the banking business of that country. But, with every renewal of the charter of the Bank of England, this clause was retained, and hence has arisen the difference which subsists between the Scotch and the English systems of banking. In the year 1826, an Act of Parliament was passed to permit the formation of banks having more than six partners, at a greater distance than sixty-five miles from London; with a provision, however, that such banks should not make their notes payable in London, nor draw bills upon London for a less amount than 50*l.* By an Act passed in 1833, these banks have the privilege of drawing bills on their London agents, either on demand or otherwise, and for a less sum than 50*l.*

The advocates of joint-stock banks allege that they possess the following advantages over private banks:—

1. Joint-stock banks possess greater security than private banks.

Security is of the first importance to a bank. One branch of the business of a banker is to take charge of money committed to his care. But who will entrust money to a banker who is not known to be, or, at least, supposed to be rich? And if a banker be rich, but afterwards, by mismanagement or misfortune, become poor, and fail, what dreadful misery is inflicted upon those who have money in his hands. How many respectable individuals may be suddenly bereft of their whole dependence. How many industrious tradesmen may become bankrupts. What distrust, what inconvenience, what interruption of business is occasioned, even to those who can bear the loss. But by a joint-stock bank all these evils are avoided. Another branch of the business of a bank is to remit money from one part of the country to another; but who will trust them with money to remit when they may fail before they have executed their trust? Banks, too, issue their own notes, and thus supply the circulating medium of

the country. Here wealth and security are more necessary than ever. In the former cases, the creditors of the banker may have had some opportunity of judging of his safety, and would probably make previous inquiries upon the subject. But when the notes of a banker have become the circulating medium of a neighbourhood, they are readily taken without any inquiries about his solvency. And, indeed, in some cases, if the notes were suspected, they could not be refused. If a tradesman will not deliver goods to his customers for such notes as they offer him, they will take the notes to some other tradesman. Men who receive wages must receive them in such notes as the master chooses to pay. Since, then, each banker supplies the circulating medium of a large district, and the notes are thus circulated among all classes, some of whom have not the option of refusing them, nor the ability to judge of their value, it is of the utmost importance that banks should be established on those principles which will prevent their failure.

That a bank having a great number of partners should be more secure than a bank consisting of only a few partners, seems a very obvious proposition; and it has received abundant confirmation from the numerous failures that have occurred among the bankers in England, and the few failures that have occurred in Scotland. This is a fact that demonstrates the superior security of joint-stock banks. If a bank of this kind has a charter, it must previously possess a large fund, which forms a guarantee for the punctual payment of its notes or deposits. If the bank have no charter, then every individual shareholder is answerable for all the debts of the bank to the whole extent of his property, as fully, as though he had incurred those debts himself. In either case the security is greater than can be offered by any one individual, or by any four or five individuals, however respectable they may be.

2. A joint-stock bank is less liable to runs.

A run is a sudden and general demand for the payment of notes, or deposits. It is not sufficient that a banker be safe: it is also necessary that he should be believed to be safe. He

derives the larger portion of his gains from the confidence which is placed in him by others. Confidence is money. However wealthy or respectable a banker may be, he may not always be believed to be so. The misfortunes of others may cause him to be suspected. But no banker has always in his coffers all the sums necessary to pay all the claims that may be made upon him. If he were to do this, from what quarter would he obtain his profits? What, then, is he to do in case of a run? He must at all events obtain money to meet the demands made upon him; for if he once suspend his payments, all his credit is destroyed and his business is broken up. Hence he may be compelled to borrow money at a high rate of interest, or to sell stock or estates below their value, and to incur great expense, in order that the money may arrive in time to meet the demand. But the effects of a run are not confined to the banker himself. One run is over, but another may come. He will be anxious to be better provided next time. He will be more cautious. He will call in the money he has lent. He will lend no more. He will discount fewer bills. Those tradesmen and others who have been accustomed to obtain from the banker facilities for carrying on their business, can obtain them no longer. Some have depended on these facilities, and will now fail; others will circumscribe their business; labourers will be thrown out of work, and trade will be obstructed and depressed.

Such are the effects of a run when the banker is solvent, and the run is met with promptitude. But the banker may be good, and yet the run may cause him to stop payment. In this case, though the banker may ultimately pay the whole of his debts, yet this stoppage will produce for a while the same effects as though he were insolvent. But it is possible that he might have been solvent before the run, and have been rendered insolvent by the run. The sacrifices he may have been compelled to make for the purpose of raising the money in time to meet the demand, may have absorbed the whole of his property.

Now, what is it that causes a run? It is merely an appre-

hension that the banker cannot discharge the whole of his obligations, and hence each creditor tries to be first, that he may secure the full amount of his own claim. But no apprehension of this kind can exist in reference to a joint-stock bank. Everybody knows that all the partners are liable for the debts of the bank to the full extent of their property; and each creditor feeling assured that even should the bank fail his property is secure, abstains from engaging in a run whereby he can gain no advantage.

3. Another advantage which joint-stock banks are alleged to possess, consists in the prudence of their management.

A joint-stock bank is managed by a board of directors, men of character and ability, who are chosen to fill the office from their superior knowledge of mercantile and banking business. The united knowledge and wisdom of a number of individuals must be greater than that of two or three individuals. They are not so liable to be imposed upon by false representations, to be deluded by false reasonings, or to be biassed by personal attachments. As among many persons there is sure to be a difference of opinion on almost every question brought before them, it is certain that no measure will be adopted without having first received a full discussion.

On the other hand, the management of a private bank is too frequently intrusted to one or two of the partners; men who cannot be expected to act with the caution and prudence of an elected body, answerable for their conduct to the great body of proprietors; men, too, who have their prejudices to indulge, their friends to please, and their partialities to gratify. Not so with the directors of a joint-stock bank, where the follies of an individual would be checked, and his deficiencies supplied by his colleagues. It often happens, too, that the partners of a private bank are engaged in some branch of manufactures or commerce; and in this case the bank will be made subordinate to the trading concern. The banking merchant or manufacturer will extend his business, or engage in speculation, under the consciousness of being able to make good his purchases. The trading concern will have an account at the bank, and will always be overdrawn.

The money which ought to be employed by the bank in discounting bills for their customers, will be absorbed by the trade of the partners. If the trading concern fails, the bank too must fail: the one involves the ruin of the other. Perhaps, indeed, the bank, by supplying money in the first instance for the parties to speculate with, may have been the cause of the ruin. Even when the partners of a private bank are not themselves engaged in any other employment, the bank often becomes connected with some large manufacturing or commercial establishments. Such establishments are useful to the bank, by enabling them to circulate a considerable amount of their notes. Hence the bank is induced to make large advances to them. Afterwards a further advance is necessary. A run upon the bank compels them to call in the money they have advanced. The money cannot suddenly be replaced. Hence all the parties become bankrupts. From all these evils joint-stock banks are alleged to be free.

Whatever opinion may be entertained respecting joint-stock banks, no legal obstacle ought to stand in the way of their formation. In most cases competition is good for the public. And hence, perhaps, the best system of banking is, when private banks and joint-stock banks are intermingled with each other. The rivalry of the private banks may induce the public banks to act with promptness and liberality: while the rivalry of the public banks may induce the private banks to guard against any measure that might shake their credit, and weaken the public confidence in their stability.

SECTION VII.

BRANCH BANKS.

The establishment of branch banks may be considered as the effect of the formation of joint-stock banks. A bank, consisting of only six partners, is seldom sufficiently well known over a great extent of country, to be able to open many

branches. The credit of such a bank would be liable to be shaken, at one or other of its branches, and this might throw a suspicion on the whole establishment. But a joint-stock bank, possessing undoubted credit, may extend its branches with confidence wherever adequate business can be obtained. The comparative merits of an independent private bank, and a branch of a joint-stock bank, and the effects they are adapted to produce in any town in which they may be introduced, form a useful subject of inquiry.

In the first place, the branch bank may be supposed to possess greater security. The branch, however small, would possess all the security that belonged to the whole establishment. The notes issued at the branch would be as valid as notes issued at the head office; and deposits made at the branch would be recoverable from all the partners in the whole bank. In case a run were upon even the smallest branch, the directors would be as anxious to meet the demand as though the run were directed against the largest. A small private bank, on the other hand, would have its only resource within itself. Its own capital would form its only guarantee; and, in case of a sudden demand, it must expect but little assistance from its neighbours.

Secondly, A branch bank would command the use of greater capital.

Every joint-stock bank would call upon its shareholders, for a supply of capital equal to the carrying on of the business. This capital would be kept in a disposable form, and, not like the capital of some private banks, locked up in loans upon inconvertible security. The confidence the bank possessed would create more banking capital, by attracting deposits and facilitating the issue of notes. Some banks create more capital than they can employ; such is the case when the amount of notes and deposits is greater than that of the loans and discounts. Others employ more than their banking capital. And some banks employ more at one season of the year, and less at another. In such cases a branch bank would be fed with capital from the parent bank, as its wants might demand. If it yielded more capital than it required,

the parent bank would employ it elsewhere. If it wanted capital the parent bank would grant an ample supply. But in these cases a private bank would be troubled with an excess of capital which it might not be able to employ advantageously for a short period, or it might be distressed to raise capital to meet the wants of its customers.

Thirdly, A branch bank would probably do business with the public on lower terms.

A bank having many branches, usually charges the same rate of interest at all the branches. The Bank of England discounts at all its branches on the same terms as in London. This cheapness of discount occasioned a great reduction of profits to the private bankers. A branch bank, too, conducted on the principle of allowing interest on deposits, will probably allow a higher rate, because the money can always be employed at some one or other of the branches, and it will return the deposits at a shorter notice, because the funds of the whole bank are ready to meet the call. In the transmission of money, a system of branch banks has a decided advantage, because the branches draw direct upon each other, and discount bills, payable at all the branches respectively. In a system of independent banks the transmission of money from one to another is usually effected by a bill on London; and bills drawn by one town on another are obliged to be made payable in London.

Branch banks are enabled to charge less than private bankers, from their expenses and their expected profits being less. If a country bank, having many branches, employs a London agent, the charge for agency will be much less than though the branches were all independent banks. A branch bank is not under the necessity of keeping in its coffers so large a stock of gold as though it were an independent bank, because, in case of emergency, it is sure of obtaining supplies. The rate of profit, too, expected from a branch bank is much less than would be expected by a private banker. A banking company would be induced to establish a branch, could they be assured of obtaining a clear profit of one or two per cent. on their capital above the market rate of interest. But

a private banker, who may be supposed already a wealthy man, would not consider that amount a sufficient remuneration for his own trouble and superintendence. Hence, his charges must be higher, to meet this increased rate of profit. Were the profits of a private banker, in proportion to the amount of capital employed, to be reduced to the average rate of profit of joint-stock banks, he would very soon think of retiring from business.

A branch bank may thus be established in a place where a private bank could not exist. It may also be opened in places not sufficiently wealthy to furnish capital for a joint-stock bank, and, where the people have no banking facilities; branches being opened in such places, prevent the formation of banks with insufficient capital. For, to be without a bank is felt to be so great an inconvenience that, if a good bank cannot be obtained, a bad one will, for a while, be supported. Hence, shopkeepers and others have become bankers; and, having but a small capital, and being unacquainted with their business, they have, ultimately, involved themselves and others in irretrievable ruin.

I have hitherto only compared a branch bank with an independent private bank. I will now compare it with an independent joint-stock bank. Several of the advantages already specified will apply as justly in this case as in the other. The branch may in this case, also be supplied with a greater amount of capital if it could be profitably employed, or it may have better means of disposing of its surplus capital. The charges of the branch, especially for the transmission of money by letters of credit, or by discounting bills, may also be less at the branch. In point of security, the two banks may be considered as on an equality; though, perhaps, in some cases, the advantage may be in favour of the branch.

The expense of managing a branch must be less than that of managing an independent bank, as a less number of directors would be necessary. The directors or managers of a branch, too, acting under the direction of a superior board, are less liable to be involved by indiscreet advances of loans from personal friendship or imperfect information. The

transactions are more thoroughly sifted, and no important measure adopted without full discussion. The very circumstance of being accountable to a superior board would render the agents at the branch more scrupulous and cautious than they might otherwise be. And the periodical returns made to the head office, would constantly bring all the business of the branch under the notice of experienced and unbiassed inspectors.

There are, however, some disadvantages attending a branch bank. As a branch bank is a mere colony, the agents must be directed by the commands they receive from the seat of government. And the branch may be directed, in some cases, to adopt measures more adapted to promote the welfare of the whole establishment than to advance the interest of that particular branch. The Bank of England, for instance, may engage to lend, on advantageous terms, a certain sum of money to the government; and, for the purpose of raising this money, they may direct their agents at the branches to limit their discounts. As it is the duty of the directors to consult the interest of the whole establishment, they might consider themselves justified, as commercial men, in adopting this line of conduct. At the same time, it would be a great inconvenience to the persons resident at the places where the branches are established to be deprived of their usual discounts.

Another possible inconvenience to a branch arises from the circumstance, that most cases of importance are necessarily referred for the consideration of the head office; not that these cases are more difficult than ordinary cases, but because they are deviations from the usual course of business, or they belong to a class of transactions which is very properly reserved for the decision of the highest authority. And hence, persons who have dealings with the branch may be obliged to wait the return of post, or a still longer term, before they can obtain answers to important inquiries. This inconvenience may, however, be considerably diminished by giving to the managers or agents a high degree of discretionary power, and reserving as few cases as possible for the decision of the supreme board of directors.

The respective claims of these three different kinds of banks as far as regards any particular place, must depend on local circumstances. It is easy to imagine cases wherein a private bank of undoubted wealth and judicious management is superior to either a branch bank or an independent joint-stock bank. But private banks depend entirely upon the persons by whom they are managed. And these persons, whatever other endowments they may possess, are not endowed with immortality, nor with the power of bequeathing their good qualities to their successors. Leaving private banks out of the question, a branch bank seems best adapted for a small town: and an independent joint-stock bank for a large one. When banking is left perfectly free, the natural force of competition will soon enable each town to provide itself with that kind of bank which is best adapted to its own wants and circumstances.

The Bank of England has several branches.

The business of the branches consists in discounting bills; in receiving deposits; in issuing bills on the London bank, at twenty-one days after date; and in the transmission of money to and from London. Each branch issues its own notes, which are payable at the place of issue, and in London. The rate of discount is the same as in London; no interest is allowed on deposits; no charge is made for a twenty-one day bill on the parent establishment: but if money be lodged at the branch, to be received the following day in London, or lodged in London, to be received at the branch, a charge is made for commission, unless the parties have accounts at the branch.

SECTION VIII.

BANKS OF DEPOSIT.

Banking is a kind of trade, carried on for the purpose of getting money. The trade of a banker differs from other trades, inasmuch as it is carried on chiefly with the money of other people.

The trading capital of a bank may be divided into two parts: the invested capital, and the banking capital. The invested capital is the money paid down by the partners for the purpose of carrying on the business. This may be called the real capital. The banking capital is that portion of capital which is created by the bank itself in the course of its business, and may be called the borrowed capital.

There are three ways of raising a banking or borrowed capital. First, by receiving deposits; secondly, by the issuing of notes; thirdly, by the drawing of bills. If a person will lend me 100*l.* for nothing, and I lend that 100*l.* to another person at four per cent. interest, then, in the course of a year, I shall gain 4*l.* by the transaction. Again, if a person will take my "promise to pay," and bring it back to me at the end of the year, and pay me four per cent. for it, just the same as though I had lent him 100 sovereigns, then I shall gain 4*l.* by that transaction; and again, if a person in a country town brings me 100*l.* on condition that, twenty-one days afterwards, I shall pay the same amount to a person in London, then whatever interest I can make of the money during the twenty-one days, will be my profit. This is a fair representation of the operations of banking, and of the way in which a banking capital is created by means of deposits, notes, and bills.

The profits of a banker are generally in proportion to the amount of his banking or borrowed capital. If a banker employ only his real or invested capital, it is impossible he should ever, in the ordinary course of business, make any rofits. Bankers can seldom obtain more upon their advances than the market-rate of interest; and that may be obtained upon real capital, without the expense of maintaining a banking establishment. If, after deducting the expenses, the profits amount to nothing more than the market-rate of interest upon the invested capital, the bank may be considered to have made no profits at all. The partners have received no higher dividend upon the capital invested in the bank than they would have received if the same money had been laid out in government securities. To ascertain the

real profit of a bank, the interest upon the invested capital should be deducted from the gross profit, and what remains is the banking profit.

A bank that receives lodgments of money, is called a bank of deposit. A bank that issues notes, is called a bank of circulation. Each bank attempts to procure a banking capital, but by different means. When a bank of deposit is opened, all the people in the district, who have money lying idle in their hands, will place the money in the bank. This will be done by the merchants and tradesmen, who are in the habit of keeping by them a sufficient sum of money to answer daily demands; by the gentry, and others out of business, who receive their rents, dividends, or other moneys, periodically, and disburse them as they have occasion. The various small sums of money which were lying unproductive in the hands of numerous individuals, will thus be collected into one sum in the hands of the banker. The banker will retain a part of this sum in his till, to answer the cheques the depositors may draw upon him; and with the other part he will discount bills, or otherwise employ it in his business. But if, instead of a bank of deposit, a bank of circulation *only* be established, then the several small sums of money will remain unproductive as before in the hands of various individuals; and the banker, in discounting bills, will issue his own promissory notes.

Now, it is obvious that these two kinds of banking are adapted to produce precisely the same effects. In each case a banking capital is created, and each capital is employed in precisely the same way; namely, in the discounting of bills. To the parties who have their bills discounted, it matters not from what source the capital is raised,—the advantage is the same to them,—the mode in which they employ the money is the same,—and the effects upon trade and commerce will be the same. Let us suppose that in each case the banking capital created is 50,000*l.* Now, the bank of circulation will have increased the amount of money in the country by 50,000*l.* The bank of deposit will not have increased at all the amount of money in the country, but it will have put

into motion 50,000*l.* that would otherwise have been idle. Here, then, is a proof, that to give increased rapidity to the circulation of money, has precisely the same effects as to increase the amount. Here, too, is a proof of the ignorance of banking, on the part of those writers who consider that the banks which issue notes are the sole cause of high prices, over-trading, and speculation; whereas it is obvious, that if those effects are to be attributed to banking at all, they may as fairly be ascribed to banks of deposit as to banks of circulation.

Even those bankers who do not issue notes, create a banking capital by the discounting of bills. They render their discounts subservient to the increase of their deposits. The London bankers will not discount except for those persons who have deposit accounts with them. A party who has had bills discounted, and has paid interest on the whole amount, must leave some portion of that amount in the hands of the banker without interest. By this means the banker obtains more than the current rate of interest on the money actually advanced, and raises a banking capital to the amount of the balance left in his hands. "A good account," in the language of the London bankers, is an account on which there is a large deposit—a bad account is that on which the sum deposited is small. A person who keeps a good account may have his bills discounted readily, but a person who keeps a bad account will have his bills more severely scrutinized. The depositors are aware of this; and therefore they endeavour to keep a fair account with the banker, that they may at all times be able to obtain such accommodation in the way of discounts as they may require. This mode of raising a banking capital by means of discounts, without allowing interest on the deposits, appears to be less advantageous to the borrower than by means of notes. In the one case, the borrower has to lodge some portion of his money in the hands of the banker, but in the other case he has only to take the banker's notes, which are probably as serviceable to him as gold. Hence, such banks appear adapted for the service of the rich rather than the poor—a young tradesman who is

commencing business with a slender capital, will hardly find it worth his while to open an account at a banker's unless he has always by him a certain portion of his capital, which he is obliged to keep unemployed.

The London private bankers grant no interest for money placed in their hands, nor charge any commission upon the amount of the transactions. Their customers pay them for the trouble of conducting their accounts by keeping a certain balance to their credit. The amount of the balance is never definitely fixed, but is regulated very much by the good sense and proper feeling of the parties. The number of cheques a party draws—the degree of accommodation he receives by discount or otherwise, these and other circumstances are taken into consideration; and though the amount of the balance is not expressly stipulated, yet few people of business habits are at a loss to judge whether the average balance of their account throughout the year is sufficient to remunerate the banker.

By the Scotch banks, deposit accounts are divided into two classes—"accounts current," and "deposit receipts;" the "accounts current" are similar to the "current accounts" kept by merchants, traders, and others in the English banks. The party pays his money into the bank, and makes all his payments by cheques upon the bank. The deposit receipts are similar to what the English bankers call "dead accounts." The depositor pays his money into the bank, and there it lies "dead" until he has occasion for it, and then he produces his receipt and withdraws the whole amount, or takes a new receipt for any part he wishes to leave. The deposit receipts are chiefly for the use of those who lodge their money in the bank merely for the purpose of security and interest. The accounts current are for those who, in addition to security and interest, wish to make use of the bank as a means of facilitating their pecuniary transactions. As far as regards the circulation of the bankers' notes, each kind of account has the same effect; but as the operations on the current accounts are more frequent, they put into circulation a larger amount.

When a banker's own notes are lodged on a deposit account, they do not diminish the amount of his banking capital.

The banking ca pitalraised by his notes is diminished, but that raised by his deposits is in the same proportion increased. If, however, the interest he allows upon the deposits is greater than the expense of the wear and tear of his notes, then will his banking capital be diminished in the more profitable, and increased in a less profitable direction. But when a deposit consists of notes of other banks, his banking capital is increased by that amount. Hence, if a banker could know that all the money deposited in his hands would consist chiefly of his own notes, it might not be for his advantage to allow any interest on deposits. It would be better for him that his notes should remain in circulation.

It will be observed that the amount of notes issued on deposit accounts, depends not on the banker but upon the depositors. They lodge money in his bank, and draw it out when they please. The deposit system, therefore, cannot place in circulation any additional amount of money. The depositors cannot draw out of the bank more money than they had deposited. After the deposits are made, the amount of money in existence is precisely the same as before. The only difference is, that what was previously in the hands of many individuals, is now in the hands of the banker—and until he has made use of this money in the way of discounts or loans, or in some other mode, no effect whatever can be produced upon the trade and commerce of the district. All the advantage the people of the neighbourhood obtain by the deposit system, considered by itself, consists in having a place of security in which they may lodge their money—in receiving interest for the sums thus deposited—and in the saving of time and trouble in effecting their pecuniary transactions. But although the deposit system does not affect the amount of the currency, it changes its character. As the lodgments will be made in the previously existing currency—whether gold, or silver, or notes of other banks—and all the issues will be in the banker's own notes—the effect will be, that in course of time all the previous currency will have passed into the bank, and all the existing currency will consist exclusively of the banker's own notes—and the more frequent and heavy

are the operations on the deposit accounts, the more rapidly will this effect be produced.

Banks of deposit serve to economize the use of the circulating medium. This is done upon the principle of transfer. The principle of transfer was one of the first which was brought into operation in modern banking. The bank of Amsterdam was founded upon this principle. Any person who chose, might lodge money in the bank, and might then transfer it from his own name to that of another person. All foreign bills of exchange were required, by law, to be paid by such transfers. Although the money might at any time be drawn out, either by the original depositor or by the party into whose name it had been transferred, yet, in fact, this was seldom done, because the bank money was more valuable than the money in common use, and consequently bore a premium in the market. The transfer of lodgments is extensively practised in our own times. If two persons, who have an account in the same bank, have business transactions with each other, the debtor will pay the creditor by a cheque upon the bank. The creditor will have this cheque placed to his credit. The amount of money in the bank remains the same; but a certain portion is transferred into a different name in the banker's books. The cheque given by the debtor is an authority from the debtor to the banker to make this transfer.

Here the payment between the creditor and debtor is made without any employment of money. No money passes from one to the other: no money is paid out or received by the banker. Thus it is that banks of deposit economize the use of the circulating medium, and enable a large amount of transactions to be settled with a small amount of money. The money thus liberated, is employed by the banker in making advances, by discount or otherwise, to his customers. Hence the principle of transfer gives additional efficiency to the deposit system, and increases the productive capital of the country. It matters not whether the two parties who have dealings with each other, keep their accounts with the same banker or with different bankers; for, as the bankers exchange

their cheques with each other at the clearing-house, the effect, as regards the public, is the same. The deposit system might thus, by means of transfers, be carried to such an extent as wholly to supersede the use of a metallic currency. Were every man to keep a deposit account at a bank, and make all his payments by cheques, money might be superseded, and cheques become the sole circulating medium. In this case, however, it must be supposed that the banker has the money in his hands, or the cheques would have no value.

Since 1825, the following facilities have been granted by the Bank of England to those who have deposit accounts; or, as they are called, "drawing accounts" at the bank:—

1. The bank receives dividends, by power of attorney, for all persons having drawing accounts at the bank.
2. Dividend warrants are received at the drawing office for ditto.
3. Exchequer bills, and other securities are received for ditto—the bills exchanged, the interest received, and the amount carried to their respective accounts.
4. Cheques may be drawn for 5*l.* and upwards, instead of 10*l.*, as heretofore.
5. Cash boxes taken in, contents unknown, for such parties as keep accounts at the bank.
6. Bank notes are paid at the counter, instead of drawing tickets for them on the pay clerks, as heretofore.
7. Cheques on city bankers, paid in by three o'clock, may be drawn for between four and five; and those paid in before four will be received and passed to account the same evening.
8. Cheques paid in after four, are sent out at nine the following morning, received and passed to account, and may be drawn for as soon as received.
9. Dividend warrants taken in at the drawing office until five in the afternoon, instead of till three as heretofore.
10. Credits paid into account are received without the bank book, and are afterwards entered therein without the party claiming them.
11. Bills of exchange, payable at the bank, are paid with or without advice; heretofore with advice only.
12. Notes of country bankers, payable in London, are sent out the same day for payment.
13. Cheques are given out in books, and not in sheets as heretofore.

SECTION IX.

BANKS OF REMITTANCE.

In the infancy of commerce, all trade was carried on with ready money. Before good roads are formed, and posts are established, trade between distant places is carried on by merchants, who associate together in considerable numbers, and meet at fixed times at particular places, whence they commence their journey to the country with which they intend to traffic. When arrived at the place where the market is held, they dispose of their goods for ready money; they then lay out their money in the purchase of other goods, with which they return. Such was the practice with the merchants of the East, who formed the immense caravans that formerly traded between Europe and India; and such is the practice of similar caravans that now trade between Egypt and Mecca. In such cases all the transactions are carried on with ready money. The bankers, if such they may be called, are mere money changers, who exchange the money of the country in which they live, for the money of other countries.

The labour of carrying money from one country to another was considerably diminished by the invention of bills of exchange; but the same mode of remittance was continued even in England, until a very recent period, with regard to the transmission of money through the provinces. When a country is considerably improved, good roads are established, and places hitherto obscure become seats of manufacturing, and agricultural industry; an interchange of commodities will take place between the provinces; the produce of one district will be transported to another, hence will arise the necessity of having some means of transmitting money in payment of these respective commodities, and banks will consequently be established. It is not the banks that give rise to the trade, it is the trade that gives rise to the banks: though, after trade is established, the introduction of a bank extends the trade.

The most effectual means of transmitting money throughout a country is by an extensive establishment of banks; banks transmit money by means of their agencies, by means of their branches, and by means of the circulation of notes.

First.—Banks transmit money by means of their agencies. This is the way in which it is carried on by the country bankers. Each country banker employs a London agent to pay his notes or bills, and to make payments in London; and, on the other hand, to receive sums that may be lodged by parties residing in London for the use of parties residing in the country. As each country bank is thus connected with London, it is virtually connected with all the other banks in the country; as far, at least, as concerns the transmission of money.

Money is remitted from London to a country town, by being paid into a London bank, to the credit of the country bank, for the use of the party who resides in the country. Money is remitted from a country town to London, by being paid into a country bank, to the credit of their London agents, for the use of the party who resides in London, or by remitting to the party a bill drawn by the country upon the London bank. Money is remitted from one country town to another by paying the money into the country bank, to be paid by their London agents to the London agent of the country bank established in the town to which the money is to be remitted, or by sending direct to the party a bill drawn by the country upon the London bank, which bill will be discounted by the bank established in the place to which the bill is sent.

Secondly.—Banks remit money from one place to another by means of their branches. Money is received at the head office for the credit of any branch; and money is received at each of the branches for the credit of the head office; and letters of credit are also granted at every branch upon all the other branches. The Bank of England transmits money from London to a branch; and, *vice versâ*, for only the charge of postage. The branches also draw bills upon the parent establishment at twenty-one days' date, without any charge.

Thirdly.—Banks remit money from one place to another by means of their circulation. Every bank of circulation will necessarily become a bank of remittance, whether it carry on the remitting of money as a branch of business or not. Some of the notes which are issued, will be sent as payments from one place to another. This will be more frequently the case if the notes are payable at any place besides the place of issue, or if the bank that issues them has credit over a great extent of country: thus, Bank of England notes serve the purpose of remittance all over the kingdom. They are usually cut in halves and sent by post, one half being retained till the receipt of the first is acknowledged. The issue of bank post-bills, payable seven days after sight, and granted in favour of the party to whom the payment is made, has still farther increased the efficiency of the Bank of England as a bank of remittance.

The extent of the remittance of any place must depend in a great degree upon its trade—that is, upon its exports and its imports. Money must be sent *from* a place to pay for its imports, and money must be *received* in exchange for exports. Both these branches of remittance, as far as regards provincial towns, are effected through the banks. Exporters and importers, residing in a city or town, do not meet together, like the merchants engaged in foreign trade, and traffic from their bills, but both parties go to the bank. The exporter draws bills, which he discounts with the bank; the importer obtains from the bank bills or letters of credit, which he remits in payment of his imports. The amount of this kind of business must, of course, depend upon the amount of the trade. Where the imports are great, there will be demand for bills, or other modes of remittance, upon the banker. When the exports are great, bills will be brought to him for discount, or lodgments will be made to his credit at his agents. By comparing the sums which are thus transmitted in different directions, a banker can merely, by a reference to his own books, ascertain the balance of trade between the place in which he resides, and any other place with which it may have commercial intercourse. If he finds

his exchanges with the neighbouring bankers are unfavourable, he may infer that the balance of trade is against the place in which his bank is established. And if, on the other hand, the exchanges are in his favour, he may infer the balance of trade is favourable. It will generally be found, that the trade between seaport and inland towns is always in favour of the former. Manufacturing towns and large cities have usually the balance in their favour. It may be observed, however, that the balance of remittances will not *always* show the balance of trade. With regard to places of fashionable resort for instance, there must be a great consumption of commodities imported from other places, and at the same time there is no commodity exported,—here the balance of trade is unfavourable: at the same time there must be great remittances, in money, to the parties residing there, to enable them to pay for the commodities they consume. Thus, too, when large sums are remitted from England to absentee landlords, or as loans to foreign powers, the balance of remittance may be against England, while the balance of trade may be in her favour.

The remitting of money to London by a country bank, diminishes the currency to that amount in the place where the bank is established. If a person at Birmingham takes one hundred sovereigns to the branch of the Bank of England, and obtains a bill at twenty-one days on the parent establishment in London, then is there a banking capital created for twenty-one days. If, when the bill becomes due, the Bank of England pay the bill in gold, the banking capital is destroyed. The currency of Birmingham is now one hundred sovereigns less, and that of London is one hundred sovereigns more. During the existence of the bill there were one hundred sovereigns less in circulation, and these one hundred sovereigns were represented by the bill. Some country bankers, instead of drawing bills upon their London agents, reissue the bills they have discounted. By this means the banker saves the expense of remitting the discounted bill to London, and the person taking it saves the expense of the stamp for a new bill.

Banks of remittance encourage the trade of a district in two ways: First, by diminishing the prices of commodities. The facility of conveying money has the same effect upon trade as a facility of conveying commodities. The opening of good roads diminishes the expense of the conveyance of goods. This cheapness in the conveyance causes the commodities to be sold at a lower price. As the imports into the town are sold at a cheaper rate, and the exports are also sold at a lower price at the place of consumption, the increased cheapness in both cases increases the demand, and hence trade is advanced. The cheapness of conveying money operates in the same way as cheapness in the conveyance of goods. After the goods are sold, the money must be transmitted. The expense of remitting the money, like the expense of conveying the goods, must be regarded as an item in the cost of production, and be taken into account in fixing the price at which the goods must be sold. Banks remit money at a less expense than it can be remitted in any other way. Hence the merchants are enabled to sell their merchandise at a lower price, and thereby consumption is increased and trade is extended.

The second way in which banks of remittance promote trade, is by enabling capital to revolve more rapidly. They cause money to be remitted in a shorter space of time. For instance,—an Irish butter merchant may purchase of a farmer a quantity of butter, and ship it for London. He may, on the same day, draw a bill for the value of the butter, and have it discounted at the bank. With this money he may purchase a further quantity of butter, against which he may draw another bill, and have it discounted. This operation, if he be in good credit, may be repeated as often as he pleases. Now, if there be no bank in the district, he could not get the money for the first shipment of butter until the return of post from London, and then he would receive large Bank of England notes, which he might not easily be able to get changed. During this interval he can make no purchases for want of money, and the farmer has no sale for his butter. Thus the banks enable the merchants' capital to revolve

several times more rapidly than it could otherwise do. To increase the rapidity of the returns of capital has the same effect as to increase its amount. If any given amount of capital, that now revolves once in a year, be made to revolve twice in a year, it will have the same effect upon trade as if the amount of capital were doubled, and its progress remained the same.

Banks of *deposit* encourage the trade and wealth of a district by collecting together the various small amounts of money, that previously lay idle in the hands of the depositors, and employing this sum in advances, by way of loan or discount to the productive classes of the community. The commodities thus produced are remitted to a distant place for sale. But in the interval, between the transmission of the goods and the return of the money for which they may be sold, the manufacturer is deprived of the use of this amount of capital. Banks of *remittance* guard against this inconvenience, and advance immediately to the manufacturer the value of the goods, by discounting his bill upon the party to whom they are consigned. By this means he has all the advantage to be gained from the higher prices of a distant sale, in connexion with that prompt payment he would obtain from a home market. Thus it is, that while banks of deposit enable the capital of any district to revolve more rapidly *within the district*, banks of remittance enable it to revolve more rapidly with reference to other places. Both produce the same effect as that positive increase of capital which is introduced by banks of circulation.

SECTION X.

BANKS OF CIRCULATION.

A BANK that issues notes is called a bank of circulation. The amount of notes that any bank has in circulation is usually called by bankers "*the circulation.*" Banks of circulation, both in England and Scotland, have all of them had

to sustain heavy accusations. I shall notice some of these charges, not with a view of rebutting them in regard to any individual bank, but in order to discuss the general principles by which we should be guided, in judging of the effects produced by banks of circulation.

The most common charge against banks of circulation is, that they have issued an excessive amount of their notes; and thus have encouraged speculation, raised the price of commodities, and led to commercial convulsions similar to that of December, 1825.

Before entering upon the consideration of these charges, I shall point out the checks that operate against an over-issue of notes.

I have already stated, that similar accusations may be as justly advanced against banks of deposit as against banks of circulation; for to give increased motion to the currency has the same effect as to increase its amount. If a million of money be taken from the counting-houses of the merchants, and the tills of the shopkeepers, and lodged in the hands of a London banker, for him to employ in advancing loans or discounting bills, this has the same effect as though he issued for the same purposes a million of his own promissory notes. There is, however, one difference. The advances of a London banker are limited by the amount of his lodgments. If the money be not placed in his hands, he cannot issue it; and hence he may be regarded as merely an agent regulating the distribution of the previously existing currency. But the country banker having the power of making money the amount of his advances is not subject to this restraint.

But the amount of notes issued by a bank must be limited by the demand of its customers. No banker is so anxious to put his notes into circulation, that he gives them away. He advances them either by way of loan or discount; and he always believes that the security on which he makes his advances is sufficiently ample. He expects that the money will be repaid with interest. It is true, that like other commercial men, he is sometimes deceived in his customers; and by placing too much confidence in them, he sustains losses.

But this is a misfortune against which he is always anxious to guard. The issues of bankers are limited, therefore; on the one hand by the wants of the public, and on the other by the bankers' desire to protect their own interests.

A further check upon the issues of banks is, that all their notes are payable on demand. Although a banker has the power of issuing his notes to excess, either by advancing them as dead loans or on slender security, yet he has not the power of keeping them out: their remaining in circulation depends not on him, but on the public; and the uncertainty as to the time of their return for payment compels him to keep at all times a sufficient stock of money to meet the most extensive demand that is likely in the ordinary course of business to occur.

Another check upon an excessive issue of notes, is the system of exchanges that is carried on between the banks. Every banker that issues notes has an interest in withdrawing from circulation the notes of every other banker, in order to make more room for his own. When a banker receives the notes of another banker, he never reissues them. If the two bankers live in the same place, they meet once or twice a week, as they may find convenient, and exchange their notes. The balance between them, if any, is paid by a draft on London payable on demand; or, which amounts to the same thing, the London agent of the one party is directed to pay the amount to the London agent of the other party. If the country banker lives at a distance from the banker whose notes he has received, he sends them to his London agent to present for payment. Hence it is that country notes seldom travel far from the place of issue: they are sure to be intercepted by some of the rival banks; and in a country where banks are so numerous as in England, it is obvious that the notes of any individual bank must move in a very limited circle. If a banker attempts to force out a higher amount of notes than the wants of this circle require, he will soon find that the notes will be returned to him in the exchanges with neighbouring bankers, or else they will speedily find their way for payment to his London agent.

Another check upon an over-issue on the part of the banks is their practice of allowing interest upon money lodged in their hands. No man will keep money lying idle in his hands if he can obtain interest for it, and have it returned to him upon demand. If a banker attempts to force out a large amount of notes, they will get into the hands of somebody. And those who do not employ them in their trade will take them back to the bank and lodge them to their credit, for the purpose of receiving the interest. Thus, if the notes of a banker are put in motion by the operations of commerce, they are soon intercepted by rival bankers; and if they attain a state of rest, they are brought back and lodged upon interest; so that in either case they are withdrawn from circulation.

Banks of circulation have also been accused of encouraging a spirit of speculation.

To obtain clear ideas as to the justice of this charge, it will be necessary to define accurately the nature of speculation, and to view the circumstances by which it is governed.

Between the producer and the consumer of any commodity, there are generally two or more parties, who are merchants or dealers. The demand for any commodity is either a speculative or a consumptive demand. The demand by the consumers who purchase for immediate use, is always a consumptive demand. But if the commodity purchased be not intended for immediate use, but is purchased at any given time, merely because the purchaser apprehends that its price will advance, then is that demand a speculative demand. So, if a merchant purchase of a manufacturer, or a farmer, such a quantity of commodities as, in the ordinary course of his trade, he is likely to require, that demand may be considered a consumptive demand; but if, in expectation of a rise in price, he fills his warehouses with goods for which he has no immediate sale, then is that demand a speculative demand. A speculation, then, is that kind of traffic in which the dealer expects to realize a profit, not by the ordinary course of trade, but by the intervention of some fortuitous circumstance that shall change the price of the commodity in which he deals.

A speculation in any commodity, therefore, is occasioned by some opinion that may be formed of its future price. It is well known that the price of commodities is governed by the proportion that may exist between the supply and the demand. Whatever increases the supply, or diminishes the demand, will lower the price; and, on the contrary, whatever diminishes the supply, or increases the demand, will advance the price. The greater part of our food, and the materials of most of our clothing, are produced by the seasons; and the quantity produced in each year depends, in a great degree, upon the most uncertain of all things,—the weather. Here, then, is a wide field for speculation. If our food, like the manna in the wilderness, were supplied to us day by day, in exactly the quantity that each individual required, it would furnish no subject for speculation. But as long as the seasons are variable in the quantity of their productions, so long will speculation exist. Many commodities, too, besides being influenced by the seasons, are influenced by several other circumstances,—as a state of peace or war,—the opening of new markets,—the discovery of cheaper modes of production,—or the substitution of a rival commodity; all these circumstances have an effect upon price, and the dealer who buys or sells any commodity in expectation than an alteration in price will be produced by such causes, is a speculator.

Now, it is obvious that no system of banking can prevent speculation, and that speculations would be formed, even were there no bank in existence. We learn from Holy Writ, that the owners of corn sometimes refused to sell, in expectation of an advance of price. These were speculations, though Judea had neither banks nor paper money. If it be said that the country banks are the cause of speculation, I will ask how it is that speculations exist in countries where there are no country banks? If it be said that the issuing of country notes is the cause of speculation, I will ask how it is that Liverpool is the most speculative place in England, although the Liverpool bankers do not issue notes? If it be said that the speculations of 1825 were produced by the country banks,

I will ask, what produced similar speculations in 1720, when there was not a single country bank in the kingdom?

It must not, however, be denied, that all banking gives to speculation facilities that would not otherwise be so easily supplied. It is the object of banking to give facilities to trade, and whatever gives facilities to trade gives facilities to speculation. Trade and speculation are in some cases so nearly allied, that it is impossible to say at what precise point trade ends and speculation begins. When a banker discounts a bill, he does not usually ask the party how he intends to employ the money; and, for aught he knows, it may be employed in speculation. Wherever there are banks, capital is more readily obtained, and at a cheaper rate. The cheapness of capital gives facilities to speculation just in the same way as the cheapness of beef and of beer gives facilities to gluttony and drunkenness.

The legitimate operations of banking, however, are such as to place speculation under some degree of restraint. As to men of large capital and immense wealth, they may speculate as much as they please; over *them* the bankers have no control. But if men of moderate means engage in speculation beyond their capital, it is not the interest of the banker to support them. For such persons to carry speculation to any great extent, it is necessary either that they raise money on slender security, or that the money be advanced for a considerable length of time. It is not the interest of a banker to meet their wishes in either of these respects. It is not his interest to advance his money on insufficient security. It is not his interest to advance money as a dead loan. The security a banker requires ought to be both ample and convertible. It is contrary to all sound principles of banking for a banker to advance money on dead security. In the first place, such loans do not create any banking capital; and, in the second place, they cannot be suddenly called up, in case any contraction of the banking capital should render it necessary.

In admitting that banking, by granting facilities to trade, necessarily grants facilities, to a certain extent, to speculation,

it is not admitted that bankers generally have granted facilities to speculation beyond the fair operations of their trade. All speculation, by increasing the number and amount of commercial transactions, puts into motion a greater quantity of money. This money is supplied by the bankers either in the way of repayment of deposits, or of discounting of bills, or by loans. Now, as increased issues on the part of the banks are almost simultaneous with a spirit of speculation, it has been inferred that the issues of the notes have excited the spirit of speculation, whereas it has been the spirit of speculation that has called out the notes. In the years 1824 and 1825, as the speculations increased, the issues of notes increased; and when the speculations were over, the notes returned. This was the case not merely in England, but also in Scotland, though none of the Scotch banks sustained the least diminution of public confidence.

Another charge that has often been preferred against banks of circulation is, that by an increased issue of their notes they have caused a general rise in prices.

In investigating this charge, it will be proper to inquire what are the cases in which an increased issue of notes may produce a rise in prices.

It cannot be denied that if any bank have the privilege of issuing notes, not convertible into gold—that is, not payable in gold on demand—the notes may be issued to such an amount as to cause a considerable advance in prices. It is now generally believed that the issues of the Bank of England during the operation of the Restriction Act did produce this effect. It may also be admitted that in a country where there is one chief bank, possessing an immense capital and unbounded confidence, the notes of such a bank, even if payable in gold, may be issued to such an extent as to cause an advance of prices, until an unfavourable course of the exchange shall cause payment of the notes to be demanded in gold. For gold will not be demanded until the course of the exchange is so unfavourable as to cause the exportation of gold to be attended with profit. Hence the issues of the Bank of England being at present under no other restraint

than liability to pay in gold on demand, may for a time cause an advance in prices.

In cases where the increased issue of notes is caused by the increased quantity of commodities brought to market, the additional amount of notes put into circulation does not cause any advance of prices. In all agricultural districts there is a great demand for notes, about the season of harvest, to pay for the produce then brought to market. In the south of Ireland the amount of notes in circulation is much greater in the winter, when corn and bacon are being exported, than in the summer months. Almost every trade and every kind of manufacture is carried on with more activity at some periods of the year than at others; and during the active seasons when money is in demand, more notes are in circulation. These notes are at such periods drawn out of the banks, either as repayments of money lodged, or by discount of the bills drawn against the exported commodities.

An increased issue of notes often causes the production of an additional quantity of commodities, and in this case does not produce an advance of prices. The issue of notes will be either in the form of discounts, or loans, or the repayment of deposits. In either case the parties receiving the money will spend it, and a demand will thus be occasioned for a certain class of commodities. If this demand should not exceed the quantity that can be readily supplied, there will be no advance of price. The parties who receive the money from the banker may give it to the dealer in exchange for the articles they purchase. The dealer wishes to replace the goods he has sold, and passes the money for more goods to the manufacturer. The manufacturer consequently buys more raw material and employs more labourers. An increased quantity of goods is thus produced, and exchanged against the increased quantity of money. But while the supply can keep pace with the demand, the price will remain the same; it is only when the demand exceeds the supply, and the commodities are consequently comparatively scarce, that the price will advance.

In many cases, an increased issue of notes is not the *cause*

but the *effect* of an advance of prices. If a Yorkshire clothier sells a thousand pounds' worth of goods to a London merchant, he will draw a bill for a thousand pounds, and take it for discount to a country banker, whose notes for a thousand pounds may thus be put into circulation; but if, in consequence of a scarcity of wool, or from any other cause, the goods that were sold for a thousand pounds are now worth two thousand pounds, then will the banker discount a bill for two thousand pounds, and put into circulation two thousand pounds of his notes. In this case it is obvious that the issue of notes is not the cause of the high price of wool; but that the high price of wool is the cause of the increased issue of notes. Such is often the case with many other commodities; a real or apprehended scarcity causes an advance in price. The same commodity exchanges for a greater quantity of money. The bills are drawn for higher sums, and the bankers who discount these bills issue, of course, a greater amount of notes. The rise in price, too, renders more capital necessary to carry on the same extent of business. Many persons who had money in the bank on interest will now draw it out, to employ it in their trade, and these operations will occasion a still farther issue of notes. A rise in the price of one commodity will sometimes advance the price of other commodities, and hence similar banking operations are affected by persons engaged in other branches of trade. The process by which high prices cause an increase in the amount of notes in circulation, can thus be easily and obviously traced.

In cases where an increased issue of notes does cause an advance of price, the advance can be but temporary, and this advance may generally be ascribed to a spirit of speculation on the part of the dealers, and not to an excessive issue on the part of the banks. As the prices of all commodities are regulated by the proportion that may exist between the demand and the supply, whenever an increased issue of notes raises prices, it must be either by increasing the demand for commodities, or diminishing the supply. The cases in which an increased issue of notes may cause an advance of prices, are chiefly those in which the money is employed in purchasing

such commodities as cannot be readily produced by human labour. Thus, if a banker lend money to a corn merchant to purchase a stock of corn, he increases the demand for corn. If he lend money to a farmer to enable him to pay his rent without selling his corn, he diminishes the supply. In both cases he may cause an advance in price. But even in this case, the most unpopular that can well be imagined, the effect on price will be but temporary: for these speculations do not diminish the quantity of corn in the country. The supplies now withheld must ultimately be sold, and in proportion as they advance the price when withheld, will they lower the price when brought to market. A degree of speculation in some commodity or other is always on foot, and occasions fluctuations in the price. The banks have no control over these speculations, and ought not to be deemed answerable for the changes they occasion. To suppose that the banks can so regulate their issues as to maintain permanent prices, is to ascribe to them a power which they do not possess, and which, if they did possess, they ought never to use.

There are various cases wherein an increased issue of notes causes a reduction of prices. The speculations which advance prices are chiefly those carried on by *dealers*. The speculations of *producers* who invest their capital in new undertakings, with the view of producing any given commodities at a less cost, will, if successful, reduce the price to the consumer, and so far as such speculations are assisted by the banks, the issue of notes thus occasioned tends to the reduction of prices. An advance of money which enables a farmer to bestow a higher degree of cultivation on his land—which enables a manufacturer or a tradesman to extend his business—has the effect of increasing the quantity of commodities offered for sale, and, consequently, to reduce the price. The banks, too, by advancing capital on lower terms than it could be otherwise obtained, diminish the cost of production, and consequently, the price. The banks still farther reduce prices by destroying monopoly. In towns where there are no banks, a few moneyed men have all the trade in their own hands; but when a bank is established, other persons of character are

enabled to borrow capital of the bankers. Thus monopoly is destroyed, competition is produced, and prices fall. Hence it is obvious, that *in the ordinary course of business* the issues of the banks tend not to advance but to lower prices.

The effect which the amount of notes in circulation has upon the foreign exchanges has been the subject of much discussion. One party contended, that as the amount of notes increases, the exchange must become unfavourable. Another party maintained, that the exchanges were not at all affected by the issue of notes, but by the state of foreign trade. The authors of the Report of the Bullion Committee expressed the former opinion, some of the Bank Directors maintained the latter.

It is obvious that the exchanges are regulated by the amount of gold that is required to be sent abroad, either to pay the balance of trade, or to pay our armies, or to subsidize foreign powers, or as rents to absentees, or for some other purpose. Now it is clear that an increased or diminished issue of notes will in no way diminish the amount of gold that is to be sent abroad, and, therefore, can have no *direct* effect upon the exchanges. If we owe the gold, we must pay it. We may diminish our issues of notes, but that will not pay our debts. If, then, the issues of notes have any effect upon the exchanges, it must be in an *indirect* way.

I have already stated that an increased issue of notes can have no effect upon the prices of commodities at home, but by influencing either the supply or the demand. If the increased quantity of money raises the demand for commodities beyond a certain point, it will advance the price. And if it increases the supply, it will lower the price; but in no way can the quantity of money in circulation affect the price of commodities but through the channels of supply and demand. Just so with the foreign exchanges. An unfavourable course of exchange arises generally from our owing a sum of money which we have to pay in consequence of our imports having exceeded our exports. An increased quantity of money, therefore, to affect the exchanges must diminish the amount of our foreign debt, and it can do this only by either in-

creasing our exports or diminishing our imports. When money is abundant our merchants can import more than formerly. This increases our debt. The importers are disposed to lay in stocks of goods, and the competition between the importers raises the price they give to the foreigner. Hence there are heavy sums to be sent abroad. It is true that when money is abundant our manufacturers and exporters can also export more goods, but the competition among exporters diminishes the price to the foreigner, and hence we have a less proportionate sum to receive. The exporter, too, having abundance of money, gives the foreigner long credit, and hence the money is not received in England for a considerable time after the goods have been shipped. In the mean time the exchanges become unfavourable, and gold must be sent abroad. Now suppose in this state of things the bank contract their issues; money becomes scarce—bills cannot be discounted, and trade is dull. Now, then, the importer having already a heavy stock of goods will buy no more ; he is anxious to sell, for he has not now sufficient capital to keep so large a stock. A general desire of selling will cause a fall of price. Fewer commodities will now be imported, and these obtained at a less price, hence there is less money due to the foreigner. The exporters, on the other hand, deprived also of their usual accommodation, cannot carry on business to the same extent—the supply will be reduced—the competition is less, and prices rise to the foreigner. The exporters, too, cannot now give such long credit as formerly; they will call in the sums due to them, and hence more money must come in from abroad. As, then, we have to pay other nations a less amount of money for our imports, and they have to pay us a greater amount for our exports, the exchanges will become favourable. It is obvious that this operation will cause great embarrassment in trade ; in fact, it is only by producing embarrassment, that a contraction of the currency can affect the exchanges.

The amount of notes in circulation affects the foreign exchanges in another way. When an increased issue takes place, money becomes more abundant ; the lenders are more

numerous, and the supply of capital is increased. Hence the price given for the loan of money, that is, the rate of interest, falls. Persons who have money to employ will find they cannot obtain the same interest as formerly, hence they will be disposed to invest it in the foreign funds, where it can be employed to greater advantage. In order to remit this money they will purchase foreign bills; this demand for foreign bills will advance their price, and the exchanges will consequently be unfavourable. On the other hand, when the circulation is considerably reduced, money becomes scarce, a higher price will be given for the use of it, the rate of interest rises; persons who have property abroad will be disposed to bring it home, where it can be more profitably invested; they will draw bills against it and sell them in the market. This new supply of bills will lower the price, and make the exchanges favourable.

It should always be recollected that the transmission of money as subsidies, loans, or for investment in the foreign funds, will have the same effect upon the exchanges as though it were transmitted in payment of commodities imported. Whenever, therefore, the issue of notes shall, directly or indirectly, cause a transmission of money from one country to another, the exchanges will be affected. But when this shall not be the case, the expansion or contraction of the currency will have no effect upon the foreign exchange.

SECTION XI.

BANKS OF DISCOUNT.

A CONSIDERABLE branch of the business of modern banking consists in discounting bills of exchange. As they have only a short time to run before they fall due, the capital advanced soon returns; and being transferable, they can, if necessary, be re-discounted. Hence they are admirably adapted for the purposes of the bankers: for, as the advances of bankers to

their customers are made with other people's money, and that money may at any time be withdrawn, it becomes necessary that the securities on which those advances are made should rapidly revolve and be at all times convertible. By means of bills of exchange bankers can easily extend or diminish their advances in proportion to the capital they may have to employ. If they find that the amount of their deposits or the amount of their circulation is diminishing, they will diminish their discounts. If these increase, they may increase their discounts.

I. *Nature and Origin of Bills of Exchange.*—Bills of exchange are said to have been invented in the fourteenth century, by the Jews or the Lombards, for the purpose of withdrawing their property from the countries from which they were expelled. The drawer and the acceptor of a bill were two persons, residing at two distant places, and the bill was probably nothing more than a written order delivered to a third person, who was going to visit the place where the debtor resided, and who would return with the money to the drawer. But it might happen that this person was not going to return; in this case he might advance to the creditor the amount of the order, and receive the money again from the debtor when he arrived at his journey's end. But this third person might not be going to the place where the debtor resided, he might be going only a part of the way, and he might then fall in with some other person who was going the other part; he would then request this other person to advance him the money in exchange for the order he had received from the creditor, and the order would then be transferred. It would thus be discovered that as a creditor might give an order upon his debtor to a third person, this third person might transfer the order to a fourth, the fourth to a fifth, and so on. To effect these transactions it would be necessary that each person receiving the order or bill, had confidence in the drawer or some of the endorsers, and also that each person receiving it should have some compensation for the trouble it occasioned him. If the order were

not payable on demand, but at some months after date, the compensation would be increased by the amount of interest for the time the order had to run before it would be payable.

Such is at present the case. The drawer of a bill on a person residing in the country *sells* it on the exchange. Foreign bills are never said to be *discounted*, but to be *sold;* for the person who gives the drawer the amount, is supposed to deduct not only the interest on the bill, but also the expense of its transmission. The buyer of a bill is a person who owes a sum of money to a person in another country (say in France), and who wants a bill to remit thither to pay his debt. The seller of a bill is a person who has exported a quantity of goods to France, and who draws a bill for the amount; it will be for the convenience of these two people to deal together: the buyer will give his money in exchange for the bill, which he will send to his creditor in France, and the seller will give his bill in exchange for the buyer's money, by which he is paid for the goods he has exported. If this money is equal to the amount of the bill, minus only what may be deemed equal to the discount and the expense of transmission, the exchange is said to be at par; but there are various circumstances which may cause the exchange to be either above or below par, and the price given for bills of exchange will vary accordingly.

When two nations exchange their commodities with each other to exactly the same amount, the buyers will be just as numerous as the sellers. The demand for bills and the supply of bills will be equal; the exchange will now be at par; but it rarely or never happens that the exports and imports between any two countries are precisely the same; and as gold is the medium of traffic between nations as well as between individuals, the balance or difference between the purchases and the sales must be remitted in that metal. Now the expense in freight and insurance of sending a quantity of gold from one country to another will not be inconsiderable. If, then, I owe a sum of money to a merchant in France, I would be willing to give something more than that

sum for a bill rather than submit to the expense and trouble of remitting gold. But if the bill would cost more than the expense at which I could send the gold, why, then the gold should go. It is evident, then, that in that nation which is in debt to another nation, and which, consequently, has to send gold to pay its debts, the demand for bills of exchange will be greater than the supply. These bills will be sold for more than the amount of the money for which they are drawn; they are then at a premium, but this premium never can rise higher than the expense of remitting an equal amount in gold: for if it were cheaper to remit gold, the gold would be remitted.

The price of bills in the market is usually called the rate of exchange, and when the balance of trade is against a country, and gold must be remitted to pay that balance, and, consequently, the price of foreign bills rises beyond their real value or par, then the course of exchange is said to be against that country: thus, for instance, if in London I can sell a bill on Paris for more than the amount for which it is drawn, then the course of exchange is said to be against England and in favour of France; but if I am obliged to sell my bill for less than the amount, then the exchange is against France and in favour of England. The price of bills is regulated entirely by the proportion that may exist between the demand and the supply, and the demand and the supply are regulated chiefly by the state of trade between the respective countries.

The trafficking in bills of exchange is now a distinct branch of business. When bills, say on France, are at a high premium in our market, a house in London will draw bills upon a house in Paris, and the bills will be sold at a good price. On the other hand, when bills on England are at a high premium in the Paris markets, a house in Paris will draw upon a house in London and sell the bill in the Paris market. This seems to be a very honourable kind of business, but it is said that some inferior persons engaged in this traffic, sometimes have recourse to unjustifiable means of raising or lowering the price of bills, in the same way as

stockjobbers are said to do to affect the value of the public funds.

Not only are bills employed as the means of transmitting money from one country to another, but also as the means of making remittances from one town to another. If a person in a country town wishes to send money to London, he can go to the bank and procure a bill upon a banker in London. If he wants to receive money from London, he will draw a bill upon his debtor, and get the money for it at the bank. If he wish to send money from one provincial town to another, he will get from the bank a bill upon a London banker and send it to his correspondent by post. When the country banker discounts, or, as it is called in the foreign market, *buys* a bill, he usually charges, in addition to the discount, a commission to pay the expense of its transmission and collection. And when he issues or sells a bill, he usually gives in exchange for cash a bill at a certain number of days after date. Hence the number of days at which a provincial banker is in the habit of drawing upon his London agent is usually called the *par of exchange* between that place and London.

II. *Advantages of Bills.*—Besides their utility as a means of transferring money from one place to another, bills have the following advantages:—

1. Bills are a means of transferring debts from one person to another. If I owe a man 100*l.* and another man owes me 100*l.*, I will draw a bill for that amount on my debtor and give it to my creditor. I have thus transferred the debt from my debtor to my creditor, and my own debt is liquidated. My debtor, instead of paying me the money he owed me, will pay it to the holder of the bill. My creditor will now look for payment to my debtor, and consider me simply as a guarantee for the payment of the bill. If he wishes to make use of the bill he will again transfer the debt to another party, placing his own name on the bill as an additional guarantee. The bill may thus pass through a variety of hands, and liquidate a great number of debts, before

it becomes due. When due, it will be paid by the acceptor, who was the original debtor, and all these intermediate transactions will be closed. Hence, in Lancashire, bills of exchange have served the purpose of a circulating medium, in the same way as bank notes. The only difference is, that in transferring a bank note you are not responsible for its ultimate payment; but in passing a bill of exchange you place your name on it as a guarantee. A bill of exchange, too, cannot always be passed for its full amount, but you will have to pay a discount according to the time it has to run before it will fall due.

2. Bills fix the period for the payment of debts, and in case of litigation they afford an easy proof of the debt. A person will have little scruple in putting off a tradesman to whom he owes money, and the creditor dares not be urgent lest the debtor should no longer deal with him, hence the time of payment can never be calculated upon with certainty. But if the customer has given a bill for the amount he owes, that bill will circulate into the hands of other persons who will be more peremptory in demanding payment, and whose applications cannot be disregarded with impunity. Besides, if a man dishonour his acceptance, his character is stamped at once in the commercial world as being either very poor, very negligent, or very unprincipled, and at no future time will he be able to raise money upon the credit of his name. Hence many persons who are very tardy in paying a book debt, are very punctual in paying their bills. In case, too, a tradesman is under the necessity of bringing an action at law against his customer, he will have to prove the actual delivery of every article mentioned in his account. This, at a distance of time, is often difficult to do; but if a bill has been accepted for the amount, it is only necessary to prove that the acceptance is in the defendant's handwriting.

3. Bills enable a tradesman to carry on a more extensive business with the same amount of capital. If, by the custom of trade, a dealer gives his customers three months' credit, he can, during that period, make no use of that portion of his capital which is invested in the commodities they have pur-

chased; but if they accept his bills, drawn at three months after date, he can, if in good credit, get those bills discounted at the bank in his town, and then employ this money in the further extension of his business. He will thus, while selling on credit, obtain nearly the same advantages as though he sold for ready money. Should he, instead of having these bills discounted, pay them to the manufacturer or wholesale house of whom he makes his purchases, it will amount to nearly the same thing. The whole of his capital is thus kept in motion, and is not diminished by any amount of outstanding debts. To give credit without drawing bills requires that a tradesman should have a large capital. To give no credit will restrict his business. By means of bills he is enabled to give credit and to extend his business, without requiring any addition to his capital.

4. Bills afford an easy way of giving a guarantee. A person may wish to borrow money of me, and I may be unwilling to lend it to him unless he procure a more wealthy person to guarantee the repayment at a given time. If he has a friend that will do this, the most easy way of effecting the guarantee is by means of a bill drawn by the borrower upon his friend. This, in point of security, is the same thing as a letter of guarantee; but it has also this additional advantage, that if I should want the money before the time fixed for its repayment, I can get this bill discounted and reimburse myself the money I have advanced. Bills of this description are called accommodation-bills, or wind-bills, or kites. When employed only as a means of affording occasional assistance to a needy friend, or for raising a sum of money for a short time, to meet an unexpected call, they do not appear to be very objectionable; but when systematically pursued for the purpose of raising a fictitious capital whereon to trade, they uniformly indicate the folly and effect the ruin of all the parties concerned.

5. Bills are the means of facilitating the removal of capital from one branch of trade to another as circumstances may require. When the demand for any commodity increases, the price advances, and more capital is put into requisition

to increase the supply. When the demand for any commodity declines, the price falls, the trade is bad, and capital will be withdrawn to be invested in a more profitable employment. Every branch of trade is liable to fluctuations from an alteration in the proportion between the demand and the supply, and hence capital is continually undergoing a transfer from the production of those articles for which there is a less demand to the production of those articles for which there is a greater demand. But in what way is this transfer effected? Is it by a manufacturer leaving one employment for another? No. The manufacturer in the declining trade will reduce his capital, while the manufacturer in the prosperous trade will augment his capital; and the transfer of capital from one trade to the other is effected chiefly by bills of exchange. The manufacturer who has sold a less quantity of commodities will have fewer bills for his banker to discount; the other, having sold a greater quantity of commodities, has more bills for discount. The banker's capital, which he employs chiefly in the discount of bills, is thus easily transferred from one branch of manufacture to another, in exact proportion to the circumstances of the respective parties. On this subject we quote Mr. Ricardo:

"In all rich countries there is a number of men forming what is called a moneyed class. These men are engaged in no trade, but live on the interest of their money, which is employed in discounting bills, or in loans to the more industrious part of the community. The bankers, too, employ a large capital on the same objects. The capital so employed forms a circulating capital of a large amount, and is employed in larger or smaller proportions by all the different trades of a country. There is, perhaps, no manufacturer, however rich, who limits his business to the extent that his own funds alone will allow; he has always some portion of this floating capital increasing or diminishing according to the activity of the demand for his commodities. When the demand for silks increases, and that for cloth diminishes, the clothier does not remove with his capital to the silk trade, but he dismisses some of his workmen, and he discontinues his

demand for the loan from bankers and moneyed men: while the case of the silk manufacturer is the reverse; he wishes to employ more workmen, and thus his motive for borrowing is increased; he borrows more, and thus capital is transferred from one employment to another without the necessity of a manufacturer discontinuing his usual occupation." *

III. *Classes of Bills.*—The bills presented to a bank for discount may generally be divided into the following classes:

1. Bills drawn by producers or manufacturers upon wholesale dealers.
2. Bills drawn by wholesale dealers upon retail dealers.
3. Bills drawn by retail dealers upon consumers.
4. Bills not arising out of trade, but yet drawn against value, as rents, &c.
5. Kites, or accommodation bills.

The first two classes of bills are the best, and are fair legitimate bills for bankers to discount.

The third class ought not to be too much encouraged. They are for comparatively small amounts, and are drawn by shopkeepers and tradesmen upon their customers. To discount these bills freely would encourage extravagance in the acceptors; and ultimately prove injurious to the drawers. When a man accepts bills to his butcher, baker, tailor, upholsterer, &c., he may fairly be suspected of living beyond his income. Solvent and regular people pay their tradesmen's accounts with ready money.

The fourth class of bills, though sometimes proper, ought not to be too much encouraged. Persons out of trade have no business with bills.

The last class of bills should almost always be rejected. To an experienced banker, who knows the parties, the discovery of accommodation bills is by no means difficult. They are usually drawn for even amounts, for the largest sum that the stamp will bear, and for the longest term that the bank will discount, and are presented for discount soon after they are drawn. The parties are often relations, friends,

* Ricardo's Principles of Political Economy, page 84.

or parties, who, from their avocations, can have no dealings with each other.

Not only the parties and the amounts of bills are matters of consideration to a banker, but also the time they have to run before they fall due. A bill drawn for a long term after date, is usually styled, not perhaps very properly, *a long dated bill.* A bill drawn at a short term, is styled a short dated bill.

Query.—Is it most for the interest of a bank to discount long dated bills or short dated bills?

Short Bills versus *Long Bills.*—First, There is more safety in discounting short bills, because the parties may fail before the long ones become due. Secondly, If any given amount of capital be employed in discounting bills, it will accumulate more rapidly by discounting short bills than long bills, operating in the same way as money placed at compound interest, which increases the faster, as the times of paying the interest are more frequent. Thirdly, If a bank charges commission on the amount of the bills discounted, the commission will be more in the course of a year upon any given amount of capital employed in discounting short bills than employed in discounting long bills. Fourthly, If a bank issues notes, a greater amount of notes will be issued in discounting a succession of short bills, than by discounting long bills. Thus if I discount a bill for 1,000*l.* drawn at twelve months after date, I issue only 1,000*l.* of notes; but if I discount in succession four bills each, having only three months to run, I issue, in the course of the year, 4,000*l.* of notes. Fifthly, Long dated bills lock up the funds of a bank so that they cannot be discounted with safety but from the bank's own capital: for if a bank employs its deposits or its circulation in discounting long dated bills, and payment of the notes or deposits should be demanded, the long dated bills could not be re-discounted, and the bank must stop. Sixthly, Long bills may encourage speculation. Persons may purchase large quantities of commodities in the expectation that the price will advance before the long bills which they accept in payment shall fall due. But if the bills are of short date, the speculation will be prevented.

Long Bills versus *Short Bills.*—First, The amount of discount is greater on a long bill than on a short bill. If, therefore, a gentleman out of business wants a temporary advance, and proposes to draw a bill on his friend, it is better to advise him to draw a long bill than a short one. Secondly, Long bills will employ a larger amount of capital. If a banker discounts any given amount per week, he will always have twice the amount of bills current, if they are drawn at four months' date, than he will have if they are drawn at two months. And, as bankers wish to employ their capital, it will be more for their advantage to discount such bills as will employ the largest amount. Thirdly, The discounting of long dated bills, being a more permanent advance of capital, is more beneficial to the commercial and agricultural classes in the district. If a retail dealer can get long bills discounted, he can afford to give longer credit, and this will induce his customers to buy more goods of him, and he will do more business. If a manufacturer or wholesale dealer can get his long bills discounted, he also can give longer credit, and will sell more goods. If a landlord can get a long bill on his tenant discounted, he need not urge him for rent, and the money may, in the interim, be employed in improving the land. The discounting of long bills is similar to a permanent advance of capital. The money may be profitably employed, and be reproduced before the long bill may become due, but if the bill be short this cannot be done.

IV. *Notaries Public.*—" A notary was anciently a scribe that only took *notes* or minutes, and made short drafts of writings and other instruments, both public and private. But, at this day, we call him a notary public who confirms and attests the truth of any deeds or writings, in order to render the same authentic."* This part of the business of a public notary must have been very necessary before the discovery of the art of printing, and when many of the first men in the state were unable to read or write. We find that some public documents have been attested by notaries

* Burns' Ecclesiastical Law, vol. iii., page 1.

in the following form:—"As my Lord Bishop is unable to write, I do hereby certify, that the above is his mark." These notaries were appointed by the Archbishop of Canterbury, and took an oath of fidelity on receiving their appointment. All instruments made by them were considered public instruments, and were received as evidence in the courts of law.

The business of a notary in the present day includes the making of wills, drawing up powers of attorney, bonds of arbitration, bills of sale, charter parties, and attestations. The drawing of instruments of this description constitutes almost the sole employment of some notaries, while the chief business of others consists in noting and protesting bills of exchange. Some notaries are translators of languages, but more frequently they employ a foreigner for this purpose.

The difference between the noting and the protesting of a bill of exchange for non-payment, is this: In noting, the notary, after having presented the bill at the proper place, and demanded payment, attaches to it a small piece of paper, on which he writes the amount of his charge and the reason why the bill is not paid—such as "no effects," "no advice," "out; no orders," "will be paid to-morrow," &c. This piece of paper is called "the notary's ticket," and the writing on it is called "the notary's answer." Some notaries have their name and address printed on their tickets. The notary also places on the bottom part of the bill, in front, the initials of his name, the amount of his fee, and the date of the noting. The same form is used in noting a bill for non-acceptance.

The practice of noting bills of exchange is not recognized by the laws of England. It is said to have taken its rise from the following circumstance: After the modern system of banking was established, and bills of exchange became numerous, it was customary for one of the clerks of the banking-house to act as a notary. If the bill had been presented in the morning and was not paid, he called in the evening to ask the reason of its non-payment, and he charged a small fee for this additional trouble. By degrees this

practice became established, and, ultimately, a notary public was employed for the purpose.

A protest is a legal instrument, drawn on stamped paper, generally according to the following form:—

On this day, , the day of , one thousand eight hundred and , I, *A. B.*, Public Notary, by legal authority, admitted and sworn, dwelling in the city of , did present for *payment* the original bill (a true copy whereof is within written,) to a *woman* at , who replied, *that said bill could not then be paid.*

Wherefore, I, the said notary, do solemnly protest against the drawer and endorsers of the said bill, and all others therein concerned, for all exchange, re-exchange, losses, costs, interest and damages, suffered and to be suffered, for want of *payment* of said bill. Thus done in my office, the day and year aforesaid,

Which I attest,

A. B., Not. Pub.

If a bill has been protested for non-acceptance, it must, when due, be again protested for non-payment. The holder of a protested bill should immediately send the protest to the party of whom the bill had been received. If the bill was only noted, the party should receive due notice.

If an action be brought upon a bill which has been only noted, it will be necessary to produce a witness in court, to prove that the bill was duly and properly presented for payment: but if the bill has been protested, the production of the protest will be sufficient evidence. No action can be brought upon a foreign bill, unless it has been protested. But if the bill has been duly noted, a protest may be drawn up at any time previous to the commencement of a suit, without a second presentation of the bill at the place where it was payable.

An inland bill may be protested for non-acceptance if it be above 5*l.*, if drawn after date, and if the value is stated therein to be received. Inland bills, in such cases, may also be protested for non-payment, if they have been accepted. No other inland bills can legally be protested. This excludes bills drawn after sight, or for a less sum than 5*l.*

Although every foreign bill must be protested, yet it is not

considered absolutely necessary that an *inland* bill should be either noted or protested, in order to sustain an action for the amount.

A bill is usually noted or protested for non-payment after bank hours, on the evening of the day on which it falls due. But if not done then, it may be noted or protested at any subsequent time. The omission of the noting or protesting by the holder does not nullify his claims upon any of the antecedent parties, provided they received due notice of the dishonour. Foreign bills should be noted on the day that acceptance or payment was refused. Inland bills may also be noted on that day, but a protest for non-payment of an inland bill cannot be made out until the day after it is due.

If a bill be refused acceptance by the drawee, and another party accept it for honour of the drawer or of an endorser, it must again be protested for non-payment by the drawee before an action can be sustained against the acceptor.

In London it is not the custom to protest inland bills at all. And in case of non-acceptance, they are not even noted, unless drawn after sight. It is then necessary that they should be noted in order to fix the time on which they fall due. Inland bills are always noted for non-payment. Foreign bills are protested both for non-acceptance and for non-payment. Bills drawn from Ireland or from Scotland are regarded as foreign bills. The notary's charge for noting a bill within the site of the ancient walls of the city of London, is 1*s.* 6*d.* Beyond those limits the charges are 2*s.* 6*d.*, 3*s.* 6*d.*, 5*s.*, and 6*s.* 6*d.*, according to the distance. The charges for protesting a bill under 20*l.* is 7*s.* 6*d.*,—from 20*l.* to 100*l.* it is 8*s.* 6*d.*, 100*l.* to 500*l.* it is 10*s.* 6*d.*—500*l.* and upwards it is 17*s.* 6*d.* The charges of notaries in London are not fixed by law, but are regulated by a society which they have established themselves, and which issues printed rules, a copy of which is given to each notary. Mr. Justice Bayley has stated positively, that if a bill be paid when presented by the notary, the acceptor is not bound to pay the expense of noting. But this is contrary to the usual practice. In such cases, the notaries always refuse to take the money

for the bill, unless they are paid the noting fees at the same time.

It is customary for the country bankers to re-issue the London bills they have discounted. In this case they always endorse the bills, and place on them a "case of need." A case of need is a reference for payment to a merchant or banker in London if the bill should not be paid by the party on whom it is drawn. This reference is made by writing on the back of the bill at bottom—"In case of need apply to Messrs. A. B. & Co." If, then, the bill should not be paid, Messrs. A. B. & Co. will pay it for honour of the endorser. The advantage of placing a case of need upon a bill is, that the party endorsing it receives it back sooner in case of non-payment. It also makes the bill more respectable, and secures its circulation. The notaries always observe these "cases of need," and after having noted the bill apply to the referee.

In the year 1801, an Act of Parliament was passed for the better regulation of public notaries in England. It enacts, that from and after the first day of August, 1801, no person shall be admitted as a notary, unless he shall have served as an apprentice for seven years to a public notary, or to a scrivener, being also a public notary. Within three months after the date of the indenture of apprenticeship, one of the subscribing witnesses must make an affidavit of the fact before the Master of the Faculties of his Grace the Lord Archbishop of Canterbury, in London, his surrogate, or commissioner. This affidavit is to be entered in a book, for which the clerk may charge the sum of 5*s*., and this book may be searched by any person on paying the sum of 1*s*. for each search. Every person, previous to being enrolled as a notary, must also make an affidavit that he has served an apprenticeship of seven years, and that during the whole of that time he has been actually employed in the business. No public notary can have an apprentice but while he actually practices. Persons applying for a faculty to become notaries within the jurisdiction of the company of scriveners, must previously take their freedom of that company. Any person

doing anything belonging to the office of the notary, without being enrolled, shall forfeit the sum of 50*l.*

In the year 1833, an Act was passed to alter and amend the Act of 1801, for the better regulation of public notaries in England. It limits the operation of the former Act to the city of London and liberties of Westminster, the borough of Southwark, and the circuit of ten miles from the Royal Exchange, in the said city of London. Beyond those limits the Archbishop of Canterbury may authorize attorneys, solicitors, and proctors, to practise as notaries within any district in which it shall be made to appear to the master of the Court of Faculties, that there is not (or shall not hereafter be) a sufficient number of such notaries public (3 & 4 Will. IV. c. 70).

In default of a notary public, a bill may be protested for non-acceptance or non-payment by any other substantial person of the city, town, or place where such bill or note shall be so dishonoured, in the presence of two or more credible witnesses, which protest shall be made and written under a fair written copy of such bill or note.

V. *The Rate of Discount.*—During the middle ages it was believed that all interest taken for the loan of money was unjust and unscriptural, and the lender was stigmatized as a usurer.

Though this notion has been altogether discarded in modern times, it may not have been either pernicious or absurd at the time it was introduced. It originated when the population was purely agricultural. That a man who borrows money with a view of making a profit by it, should give some portion of his profit to the lender, is a self-evident principle of natural justice. A man makes a profit usually by means of traffic. But in a country purely agricultural, and under such a government as was the feudal system, there can be but little traffic, and hence but little profit. Besides, in an agricultural country a person seldom wants to borrow money except he be reduced to poverty or distress by misfortune. Now for a rich man who has money which he cannot pro-

fitably employ, to charge interest for a loan to a man in distress, appears to be consistent with neither justice nor benevolence.

Erroneous views are often entertained of the Mosaic laws, from neglecting to consider the state of the people to whom those laws were given. It was the object of the Jewish legislator to make the Jews a purely agricultural people. The promotion of agriculture was, as Montesquieu would say, the SPIRIT of his laws. Hence he prohibited the taking of interest for the loan of money. By this means he interdicted commerce. His design was to prevent the Israelites associating with the surrounding nations and learning their idolatrous practices. But even Moses permitted the Jews to take interest for money lent to strangers; a circumstance which proves that the prohibition was only a political and not a moral precept. If the taking of interest for money were morally wrong, it would have been forbidden in all cases. But in the middle ages the political and the moral laws of Moses were confounded together, and all of them were supposed to be of perpetual obligation upon all nations. These opinions, which might have been useful in a purely agricultural state, were still indulged when a change of manners required that this country should become commercial. If we admitted the unlawfulness of taking interest for money we might on the same principle condemn all kinds of commerce, and even all profitable investment of capital. Where is the difference between taking money for the use of money, and taking money for the use of commodities that are purchased with money? If I lay out 100*l.* in the purchase of a house I am allowed to take rent for the use of that house. Why, then, if I lend to a friend the 100*l.* with which he purchases a house, am I to receive no remuneration? If we are not allowed to receive any money for the loan of money, why are we allowed to receive money for the loan of a house or a coach, or any other article? An exorbitant charge for interest is certainly unjust, but so is an exorbitant charge for anything else.

After it had been admitted that it was lawful to take

interest for the loan of money, the government thought proper to limit the amount. In the reign of Henry VIII. interest was limited to 10 per cent. James I. reduced it to 8 per cent.; at which rate it remained till the reign of Charles II., when it was reduced to 6 per cent.; and finally, in the reign of Queen Anne, it was reduced to 5 per cent. in Ireland, the legal rate of interest being higher. However inapplicable these laws may be to our own times, they were probably beneficial at the time they were enacted. In our time capital has accumulated, money is abundant, the lenders are numerous, hence competition is sure to take place, and the value of money will be regulated in the same way as that of any other commodity in the market. But, in those times, the lenders were few, and might easily combine to fix the rate of interest as they pleased. They had, in fact, though not a legal, yet an actual monopoly, and hence it was necessary that they, like other monopolists, should be placed under restraint. In our times, it is the rate of profit which regulates the rate of interest. In those times, it was the rate of interest which regulated the rate of profit. If the money-lender charged a high rate of interest to the merchant, the merchant must have charged a higher rate of profit on his goods. Hence, a large sum of money would be taken from the pockets of the purchasers to be put into the pockets of the money-lenders. This additional price, too, put upon the goods, would render the public less able and less inclined to purchase them. The laws, therefore, which restricted the rate of interest were, probably, in those times, friendly to trade.

Sir Josiah Child, in his excellent Essay on Trade, accuses the "new-fashioned bankers" of being "the main cause of keeping the interest of money at least two per cent. higher than otherwise it would be; for, by allowing their creditors six per cent., they make moneyed men sit down lazily with so high an interest, and not push into commerce with their money, as they certainly would do, were it at four or three per cent., as in Holland. This high interest also keeps the price of land at so low as fifteen years' purchase. It also makes

money scarce in the country, seeing that the trade of bankers being only in London, it very much drains the ready money from all other parts of the kingdom."

That we may be able to judge of the truth of these accusations, it will be necessary to make some observations upon those circumstances which influence the rate of interest.

It has been the opinion of most of our political economists, that the rate of interest is regulated by the rate of profit. This sentiment has, however, been attacked. It has been contended, that the rate of interest is not influenced by the average rate of profit, but by the quantity of moneyed capital in the market, compared with the wants of the borrowers. In other words, that the price of money is influenced by the proportion between the demand and the supply.

This sentiment is undoubtedly right; but it does not overthrow the proposition against which it is advanced. The price of money, or of the loan of money, is no doubt, like the price of every other commodity, regulated *at any particular time* by the proportion between the supply and the demand. But does not the rate of profit regulate the supply and the demand? Will any commercial man borrow money when he must give a higher interest for it than he can make profit by its use? Or will any man lend money at a very low interest, when, by engaging in business, he can make a very high profit? It is true that, on particular occasions, and under particular circumstances, some individuals may do this, but not permanently and universally. It is obvious, then, that a high rate of interest, in proportion to profits, increases the supply of money, and diminishes the demand; and a low rate of interest, in proportion to profits, increases the demand for the loan of money, and diminishes the supply. The rate of interest, therefore, is ultimately regulated by the rate of profits.

When we say the price of cotton is regulated by the cost of production, we do not mean to deny that the market price of cotton is fixed by the proportion between the demand and the supply. On the contrary, this is admitted; but then it is contended, that the supply itself is regulated by the cost

of production. If the market price of cotton were so low as not to furnish to the grower a fair average of profit on the capital employed, then would capital be removed, after a while, from the cultivation of cotton to some other employment. And if the price of cotton were so high as to furnish more than the fair average of profit, then, after a while, more capital would find its way into that employment, the supply would be increased, and the prices would fall; but it is only by influencing the supply that the cost of production has any effect upon the price. Thus, although the cost of production may be the same for a number of years, the price may be perpetually varying. The price may, from a variety of causes, be in a state of constant vibration; but it cannot *permanently* deviate on one side or the other much beyond the line marked out by the cost of production.

It is the same with the interest of money. It is subject to perpetual fluctuation, from the proportion between the demand and the supply, but it will not deviate far from the line marked out by the rate of profit. For the rate of profit not only influences the supply (as with cotton) but also influences the demand.

The above reasoning is founded on the supposition that those who borrow money, borrow it for the purpose of investing it in trade, or of making a profit by its use. But this is not always the case; and is never the case with the government of a country, who always borrow for the purpose of spending. Now we can form a judgment as to what portion of his profits a merchant is willing to give for the loan of a sum of money, but we can form no judgment as to the conduct of a profligate rake who wants money to spend on his follies. A king or a government is in the same state. They will borrow money as cheap as they can; but, at all events, money they will have. We cannot, therefore, infer that, because Charles II. gave, at times, to the new-fashioned bankers, thirty per cent. for money, that the average rate of profit exceeded thirty per cent. May not, then, these advances to the king have had the effect of raising the interest of money, and thus justify the accusations of Sir Josiah Child?

When a number of commercial men borrow money of one another, the *permanent* regulator of the rate of interest is the rate of profit; and the *immediate* regulator is the proportion between the demand and the supply. But when a new party comes into the market, who has no common interest with them, who does not borrow money to trade with, but to spend, the permanent regulator (the rate of profit) loses its influence, and the sole regulator is then the proportion between the demand and the supply. The loans to the king created a much greater demand for money, and the rate of interest consequently rose. These demands were to so great an amount, and were so frequently repeated, that the rate of interest became permanently high. Many individuals would, no doubt (as Sir Josiah Child states they did) withdraw their capitals from trade, and live upon the interest of their money. And others, who were in business, would employ their superfluous capital in lending it at interest, rather than in extending their business. Those commercial men who now wanted to borrow money must give a higher interest for it than they did before. To enable themselves to do this, they must charge a higher profit on their goods. Thus then, in this artificial state of the money market, it appears reasonable to suppose that the rate of interest may have regulated the rate of profits, instead of the rate of profits regulating the rate of interest, which is the natural state.

As the rate of interest is regulated by the proportion between the demand and the supply of money, it will vary, not only in different countries, but in different provinces of the same country, according to the proportions found to exist. In the London money market the rate of interest is usually much less than in the country. The price of any commodity when purchased in large quantities at a wholesale warehouse, is always less than that at which it is retailed to the consumer. So the price of the loan of money at the Stock Exchange, where it is advanced in large masses upon government security, will always be less than when advanced in small sums upon individual security. A low rate of interest in London, however, will, after a while, have the effect of lowering the

rate of interest in the country *upon those securities which are negotiable in London.* For if the country banker insists on a high rate of discount for bills drawn upon good London houses, the drawer will send them to a bill broker in London, who will get them discounted and remit the money to the drawer. But with regard to those bills which are not payable in London, a higher rate of discount may be obtained.

The cheapness of money in London has the effect of diminishing the number of bills drawn upon London. A London merchant who sends an order for goods to a country manufacturer, instead of saying, "Draw upon me at two months," will say, "Allow me the discount, and I will send you the cash." If he can get an allowance of four per cent. discount, and borrow the money in London at two per cent., he will make an additional profit on this transaction. As the surplus quantity of money in London thus becomes diffused throughout the country, the rate of discount will gradually advance in London and fall in the country.

Although a low rate of interest indicates the abundance of capital, and hence may be considered as a favourable circumstance in the condition of any nation, yet it produces some injurious effects: it occasions the removal of capital to foreign countries; it weakens the inducements to frugality and accumulation; and it encourages speculative and hazardous undertakings. Persons who can obtain but a low rate of interest for their money, are often induced to engage in speculations which promise to yield a more profitable return. All seasons of speculation have been preceded by a low rate of interest.

In the year 1818, a select committee of the House of Commons was appointed to consider of the effects of the laws which regulate or restrain the interest of money, and to report their opinion thereupon to the house. After examining twenty-one witnesses upon the subject, the committee delivered the following report:—

"1. *Resolved,*—That it is the opinion of this committee, that the laws regulating or restraining the rate of interest have been extensively evaded, and have failed of the effect of imposing a maximum on such

rate; and that of late years, from the constant excess of the market rate of interest above the rate limited by law, they have added to the expense incurred by borrowers on real security; and that such borrowers have been compelled to resort to the mode of granting annuities on lives,—a mode which has been made a cover for obtaining higher interest than the rate limited by law, and has further subjected the borrowers to enormous charges, or forced them to make very disadvantageous sales of their estates.

"2. *Resolved*,—That it is the opinion of this committee, that the construction of such laws, as applicable to the transactions of commerce as at present carried on, have been attended with much uncertainty as to the legality of many transactions of frequent occurrence; and, consequently, been productive of much embarrassment and litigation.

"3. *Resolved*,—That it is the opinion of this committee, that the present period, when the market rate of interest is below the legal rate, affords an opportunity peculiarly proper for the repeal of the said laws."

In the Bill passed in 1833 for the renewal of the charter of the Bank of England, a clause was introduced, which exempted bills not having more than three months to run, from the operation of the laws against usury.*

VI. *Effect of Discounts on the Circulation.*—The discounting of bills, by banks of circulation, will have the same effect in changing the currency as the deposit accounts, but will not operate so rapidly. When a bill is discounted, the banker issues his own notes to that amount; and when the bill is paid, he receives a part of the amount in gold, or silver, or in notes of other banks. If, however, the bill be not a local bill, that is, if it be not payable in the place in which the bank is established, it will be paid in the currency of the place where it is payable, and its payment will not have the effect of diminishing the local currency.

While the issue of notes upon the deposit accounts depends altogether upon the depositors, the issues in the way of discount depend altogether upon the banker—he may discount, or not discount, as he pleases. If he discounts with real capital, he does not thereby increase the amount of the currency—for that capital must, in some way or other, have

* The laws against usury have been repealed.

been previously employed. If he discounts with that portion of his banking capital which is raised by deposits, he does not increase the amount of the currency, but gives it increased rapidity. If he discounts with that portion of his banking capital which is raised by notes, he increases the amount of the currency. As banks of circulation always issue their own notes, it would seem that their discounting business was carried on exclusively with this last description of capital, but it is not so. It is very possible for a banker to issue his own notes for all the bills he discounts, and yet nine-tenths of the bills in his possession shall represent real capital. For, although in the first instance, the banker's notes are given for the bill, yet these notes may not stay in circulation until the bill becomes due: the bill may have three months to run, the notes may return in three days. If the notes given in exchange for the bills remain in circulation until the bills become due, then do the discounts create a banking capital equal to their own amount. But if the bills have three months to run, and the notes remain out only one month, then they create a capital to only one-third of their amount, and the other two-thirds must consist of capital derived from other sources. If the notes remain out beyond the time the bill falls due, then do the discounts create a banking capital beyond their own amount.

It may be observed, that in order to trace the effects of banking, it is necessary to mark particularly the way in which the bankers employ their money. It is not the creation of a banking capital, but the way in which that capital is applied, that the greatest effects are produced upon the currency, and upon the trade and commerce of a country. Money employed in discounting bills drawn for value will encourage trade—if employed in discounting accommodation bills, it will promote speculation—if advanced as dead loans to persons out of trade, it may lead to extravagance—if invested in the funds, it will raise their price and reduce the market rate of interest—if kept in the till, it will yield no profit to the banker and be of no advantage to the community.

SECTION XII.

CASH CREDIT BANKS.

A CASH credit is an understanding on the part of the bank to advance to an individual such sums of money as he may from time to time require, not exceeding in the whole a certain definite amount; the individual to whom the credit is given entering into a bond, with securities, generally two in number, for the repayment, on demand, of the sums actually advanced, with interest upon each issue from the day upon which it is made.

A cash credit is, in fact, the same thing as an overdrawn current account, except that in a current account the party overdraws on his own individual security, and in the cash credit he finds two securities who are responsible for him. Another difference is, that a person cannot overdraw his current account without asking permission each time from the bank, whereas the overdrawing of a cash credit account is a regular matter of business; it is, in fact, the purpose for which the cash credit has been granted.

The following considerations will show that a person who has occasion for temporary advances of money will find it more advantageous to raise these sums by a cash credit than by having bills discounted:—

First. In a cash credit the party pays interest only for the money he actually employs.

If a person wants to make use of 100*l.*, and has a bill for 150*l.*, he will get the bill discounted, and thus pays interest for 50*l.*, for which he has no use. But if he has a cash credit, he draws only 100*l.*, and pays interest for that amount.

Secondly. In a cash credit he can repay any part of the sum drawn whenever he pleases.

If a trader has a bill for 150*l.* discounted to-day, and should unexpectedly receive 150*l.* to-morrow, he cannot rediscount the bill, but has actually paid interest for money he does not want. But if he draws 150*l.* upon his cash credit account

to-day, and to-morrow receives 150*l.*, he takes this money to the bank, and will have to pay the interest upon 150*l.* for only one day.

Thirdly. In a cash credit he has the power of drawing whenever he pleases, to the full amount of his credit; but in the case of discounting bills, he must make a fresh application to the bank to discount each bill, and if the bank have at any time more profitable ways of employing their money, or if they suspect the credit of the applicant, they may refuse to discount, but this would not be the case if he had a cash credit.

Fourthly. In a cash credit the party does not pay the interest until the end of the year; whereas, in the other case, he pays the interest at the time the bill is discounted.

Cash credits are granted not only upon personal security, but also upon the security of the Public Funds.

This furnishes great facilities of raising money to those who possess property which they are not disposed to sell. A person who is a holder of government stock may sell out a portion to supply his temporary necessities; and when he wishes to replace it he finds the price of stock has risen, and it will cost him more money to repurchase than he received when he sold. But if he transfers the stock to a bank as a security for a cash credit, he may repay the money whenever he pleases; and if, in the mean time, the value of the security should have risen, all the advantage will be his own.

The effects of cash credits are thus described by Adam Smith:—

"The commerce of Scotland, which at present is not very great, was still more inconsiderable when the two first banking companies were established, and those companies would have had but little trade had they confined their business to the discounting of bills of exchange. They invented, therefore, another method of issuing their promissory notes, by granting what they called cash accounts, that is, by giving credit to the extent of a certain sum (two or three thousand pounds, for example) to any individual who could procure two persons of undoubted credit and good landed estate to become surety for him, that whatever money should be advanced to him within the sum for which the credit had been given should be repaid upon demand, together with the legal

interest. Credits of this kind are, I believe, commonly granted by banks and bankers in all different parts of the world. But the easy terms upon which the Scotch banking companies accept of repayment are, so far as I know, peculiar to them, and have perhaps been the principal cause both of the great trade of those companies, and of the benefits which the country has received from it.

"Whoever has a credit of this kind with one of those companies, and borrows a thousand pounds upon it, for example, may repay this sum piecemeal, by twenty and thirty pounds at a time, the company discounting a proportional part of the interest of the great sum, from the day on which each of those small sums is paid in, till the whole be in this manner repaid. All merchants, therefore, and almost all men of business, find it convenient to keep such cash accounts with them, and are hereby interested to promote the trade of those companies by readily receiving their notes in all payments, and by encouraging all those with whom they have any influence to do the same. The banks, when their customers apply to them for money, generally advance it to them on their own promissory notes. These the merchants pay away to the manufacturers for goods; the manufacturers to the farmers, for materials and provisions; the farmers to their landlords for rent; the landlords repay them to the merchants for the conveniences and luxuries with which they supply them; and the merchants again return them to the banks, in order to balance their cash accounts, or to replace what they may have borrowed of them: and thus almost the whole money business of the country is transacted by means of them. Hence the great trade of those companies.

"By means of those cash accounts every merchant can, without imprudence, carry on a greater trade than he otherwise could do. If there are two merchants—one in London and the other in Edinburgh, who employ equal stocks in the same branch of trade, the Edinburgh merchant can, without imprudence, carry on a greater trade and give employment to a greater number of people than the London merchant. The London merchant must always keep by him a considerable sum of money, either in his own coffers, or in those of his banker, who gives him no interest for it, in order to answer the demands continually coming upon him for payment of the goods he purchases upon credit. Let the ordinary amount of this sum be supposed five hundred pounds. The value of the goods in his warehouse must always be less by five hundred pounds, than it would have been had he not been obliged to keep such a sum unemployed. Let us suppose that he generally disposes of his whole stock upon hand, or of goods to the value of his whole stock upon hand, once in the year. By being obliged to keep so great a sum unemployed, he must sell in a year five hundred pounds worth less goods than he might otherwise have done. His annual profits must be less by all that he could have made by the sale of five

hundred pounds' worth more goods, and the number of people employed in preparing his goods for market must be less by all those that five hundred pounds more stock could have employed. The merchant in Edinburgh, on the other hand, keeps no money unemployed for answering such occasional demands. When they actually come upon him he satisfies them from his cash account with the bank, and gradually replaces the sum borrowed with the money or paper which comes in from the occasional sales of his goods. With the same stock, therefore, he can, without imprudence, have at all times in his warehouse a larger quantity of goods than the London merchant, and can thereby both make a greater profit himself and give constant employment to a greater number of industrious people who prepare those goods for the market. Hence, the great benefit which the country has derived from this trade.

"The facility of discounting bills of exchange, it may be thought, indeed, gives the English merchants a convenience, equivalent to the cash accounts of the Scotch merchants. But the Scotch merchants, it must be remembered, can discount their bills of exchange as easily as the English merchants, and have, besides, the additional conveniency of their cash account." *—*Wealth of Nations,* Book ii. chap. 2.

Query.—Is it better for a bank to make advances of money on cash credits, or by discounting bills of exchange?

Bills of Exchange versus *Cash Credits.*—1. Cash credits, when once granted, cannot be called up, but bills of exchange soon fall due, and you can refuse to discount again.

2. If you discount bills of exchange they can be rediscounted to supply the bank with funds, if necessary, but advances on cash credits cannot be replaced.

3. In case of a panic or a run upon the bank, the persons having cash credits might have occasion to draw upon the bank, and the notes would immediately be returned upon the bank for payment in gold; but you could refuse to discount bills of exchange until the run was over.

Cash Credits versus *Bills of Exchange.*—1. A higher interest is charged upon cash credits than upon bills of exchange.

2. Cash credits, being of the nature of a permanent advance, are more beneficial to the parties; hence trade is

* For a further account of the system of cash credits, see Gilbart's Practical Treatise on Banking.

more promoted, and the benefit to the bank must ultimately be greater.

3. Parties having cash credits are more closely connected with the bank, and, hence, would use their influence to prevent any run upon the bank, and to promote the prosperity of the bank.

4. The mode of recovering an advance upon a cash credit is more summary and certain, as the bond can be put into execution immediately, but an action for the recovery of an unpaid bill is very tedious, and may be frustrated by informality, &c.

A cash credit operates much in the same way as a discount account and a current account combined. It resembles a discount account inasmuch as a banker is usually in advance to his customer. It resembles a current account, as it is required that there be frequent operations upon it; that is, that there be perpetual payings in and drawings out of money. The bankers expect that a cash credit shall maintain a banking capital equal to its own amount. As the banker is usually in advance, a cash credit can create no banking capital by means of deposits; it can be done only by means of the notes. If, then, the operations on a cash credit are sufficient to keep in circulation an amount of notes equal to the amount of the credit, then it gives satisfaction to the banker; but not otherwise. Previous to granting a cash credit, the banks always make inquiries to ascertain if this is likely to be the case; and even after it is granted it is liable to be called up if it has not accomplished this object. Hence, cash credits are denied to persons who have no means of circulating the banker's notes, or who wish to employ the money as a dead loan. And in all cases they are limited to such an amount as the party is supposed to be capable of employing with advantage to the bank.

SECTION XIII.

LOAN BANKS.

LOAN banks are banks formed for the purpose of advancing loans upon articles of merchandize. Some are carried on for the purposes of gain, others from motives of charity.

The Bank of England was empowered by its charter to carry on the business of a loan bank. The following is the twenty-sixth section of the Act:—"Provided that nothing herein contained shall in anywise be construed to hinder the said corporation from dealing in bills of exchange, or in buying or selling of bullion, gold or silver, or in selling any goods, wares, or merchandize whatever, which shall really and *bonâ fide be left or deposited with the said corporation for money lent or advanced thereon*, and which shall not be redeemed at the time agreed on, or within three months after, or from selling such goods as shall or may be the produce of lands purchased by said corporation." In pursuance of the privilege granted by this clause, the directors gave public notice that they would lend money at four per cent., on "plate, lead, tin, copper, steel, and iron."

The Bank of Scotland was also authorized to act as a loan bank. The following is one clause of the Act by which it was established in 1795:—"And it is further hereby statute and ordained, that it shall be lawful for the said governor and company to lend, upon real or personal security, any sum or sums, and to receive annual rent for the same, at six per cent., as shall be ordinary for the time: as also that if the person borrowing, as said is, shall not make payment at the term agreed upon with the company, that it shall be lawful for the governor and company to sell and dispose of the security or pledge by a public roup, for the most that can be got, for payment to them of the principal annual rents and reasonable charges, and returning the overplus to the person who gave the said security or pledge."

The Royal Bank of Scotland were also empowered by their

charter, "to lend to any person or persons, bodies politic or corporate, such sum and sums of money as they should think fit, at any interest not exceeding lawful interest, on real or personal security, *and particularly on pledges of any kind whatsoever, of any goods, wares, merchandizes, or other effects whatsoever*, in such way and manner as to the said company should seem proper and convenient."

"The Hibernian Joint-stock Loan Company," usually called the Hibernian Bank, was formed in 1824, "for the purpose of purchasing and selling annuities, and all public and other securities, real and personal, in Ireland, and to advance money and make loans thereof, on the security of such real and personal security, at legal interest, and on the security of merchandize and manufactured goods." This company, however, has never carried on the business of a loan bank, but has confined its transactions to the business of a commercial bank. It has not the power of issuing notes, but it is a bank of discount and of deposit.

Capital advanced, by way of loan, on the securities of merchandize, would produce the same effects as if advanced in the discounting of bills. If a party borrows 100*l.* on the security of his merchandize, it is the same as though he had sold his merchandize for a 100*l.* bill, and got it discounted with the banker. By obtaining this advance he is enabled to hold over this merchandize for a better market, and avoids a sacrifice which, otherwise, he might be induced to make, in order to raise the money for urgent purposes.

Every advance of money by a banker, let it be made in what way soever, is in fact a loan. To discount a 100*l.* bill that has three months to run, is much the same as to lend that amount for three months. The difference is, that the banker has two or more securities instead of one—the time of repayment is fixed; and the interest on the whole sum is paid at the time it is advanced. But let one trader draw bills upon his customers, and take them to the bank for discount—let another trader give his customers three months' credit without drawing bills, and borrow of the banker the amount of the goods sold; it is obvious that in each case the

traders receive the same accommodation, and the effect on commerce will be the same. The bill is merely a transfer of the debt from the drawer to the banker, with the drawer's guarantee. Cash credits are loans—the amount of the loan varies every day, but the maximum is fixed. If a trader who has a cash credit for 500*l.* has always 300*l.* drawn out, it is nearly the same thing as though he had a loan for 300*l.* The advantage to him is, that he can draw exactly such a sum as he may need—that he can replace it whenever he pleases, and in such portions as he may find convenient; and he pays interest only for the sum drawn out. It is unnecessary to say that overdrawn accounts, mortgages, and all advances of money on pledges or securities of any kind are loans.

It is contrary to all sound principles of banking for a banker to advance money in the form of permanent loans, or as they are called, dead loans. In the first place, those dead loans do not create any banking capital—and, secondly, they cannot be suddenly called up. For a banker to lend out his banking capital in the way of permanent loan is obviously imprudent, as he knows not how soon that capital may be taken out of his hands; and it is almost equally imprudent to advance his real capital in that way, as the real capital ought to be kept in a disposable form, so that it may be rendered available in case of any sudden contraction of the banking capital. The investing of money in the public funds is not strictly an operation of banking. It does not increase the banking capital. Yet it is necessary that a banker should lay out some portion of his capital in this way, because he can so easily realize the money in case a run should be made upon his bank. The portion thus invested is probably less productive than any other part of his capital, except the sums kept in his till to meet occasional demands. Sometimes, however, a rise in the funds will be the means of affording him a considerable profit.

The second class of loan banks arose from motives of charity. These institutions were first established in the fifteenth century, for the purpose of checking the extortions of usurers, by lending money to the poor upon pledges, and without

charging interest.* They were originally supported by voluntary contributions; but as these were found insufficient to support the necessary expenses, it became necessary that the borrowers should be charged interest for the loans. These banks were at first distinguished by being called *montes pietatis.* It appears that the word mont, or mount, was at an early period applied to any pecuniary fund, and it is probable that the promoters of this system added "pietatis" to give it an air of religion, and thus to procure larger subscriptions. A bank of this kind was formed at Perugia in the year 1464; another at Rome in 1539; one at Naples, which was considered the greatest in Europe, in the following year, and it took the name of *banco die poverie*—the bank of the poor. These institutions were opposed in France. An attempt was made to introduce them under Louis XIII. in 1626, but the managers were threatened with punishment, and the undertaking was relinquished. The Monte de Pieté, at Paris, was established in the year 1777; and so largely has the public taken advantage of the accommodation this afforded, that it has been known to have in its possession forty casks filled with gold watches.

These banks were not only called Mounts of Piety, but they were also called Lombards, from the name of the original bankers, or money-lenders. A loan-bank, or a Lombard, was established in Russia in 1772,† to prevent the usury and the oppression to which the poor were exposed, and the profit was given to the foundling hospital of St. Petersburg. The "Lombard" lent on gold and silver three fourths of the value, on other metals it lent one half the value, and on jewels as much as the circumstances of the times would allow, the estimate being made by sworn appraisers. The rate of interest was established throughout the empire, in 1786, at five per cent. At the Lombard, one year's interest is taken in advance. Pledges that are forfeited are publicly sold; and if they produce more than the loan, the interest, and the charges, the overplus is given to the owners.

* See Beckmann's History of Ancient Institutions.

† Oddy, on European Commerce.

In 1695, Sir Francis Brewster published his Essay on Trade and Navigation, "printed for T. Cockerell, at the Three Legs, in the Poultry, over against the Stocks-market." He has a section upon "Banks and Lumbers." He recommends that in every shire a bank should be erected by Act of Parliament; and he states that it would be "the most effectual way for suppressing highwaymen; for that no man need travel with more than pocket-money for his expenses, when he may have bank tickets to any part of the kingdom where he goes." He afterwards observes, "that lumbers for poor artizans and others is an appendix to banks, and may by funds out of them in each county be supplied so as that the poor men have money to carry on their trade and employment on the pawns that may be so easy, and with the advantage of selling in public sales what they leave in pledge. And that what they borrow should be of more advantage and easy to them than if the money were lent them gratis, and may be of great use in the employment, and encouraging the manufactures of the nation, which are much discouraged by the necessities and hardships that are put upon the poor."

Loan banks, for charitable purposes, have, for a considerable time past, existed in Ireland. A voluntary association of this kind was established in the year 1756. This society was incorporated in 1780, under the title of "The Charitable Musical Society." They had their meetings at St. Ann's vestry-room, Dublin, on the first and second Tuesday in every month, for the purpose of lending money, interest free, to indigent tradesmen, in sums of not less than two pounds to any one person at one time, which sums are to be repaid at sixpence in the pound, weekly.

The Meath Charitable Loan Society was established in 1807. The committee of managers lent sums, not under five, and not exceeding twenty pounds, free of interest, to be repaid by weekly instalments of 1*s.* 6*d.* for 5*l.*; 3*s.* for 10*l.*; 6*s.* for 20*l.* Donations of 10*l.* and upwards being vested in government securities, the interest only to be applicable to the fund, or thrown into the floating capital, at the option of the donor.

It seems highly desirable that in England also charitable loan banks should be taken under the protection of the legislature. These institutions might be organized in the same manner as savings' banks. In most parts of England there are probably some persons of affluence who would become personally bound for the repayment of such sums as the government might be disposed to advance; or, in other parts, the necessary funds might be raised by private donations. The funds might be employed in such a way as the committee might deem best adapted to promote the object of the institution. The loans might be made either in money, in raw produce, or in implements of labour. These might be recovered, if necessary, by summary process. The state would thus become the Bank of the Poor. It would sustain the same relation to the humbler classes which ordinary banks sustain to the commercial classes. It would be an intermediate party between the borrowers and the lenders. It could borrow, by means of savings' banks, from those who had money to lend; and lend, by means of loan banks, to those who wished to borrow.

SECTION XIV.

SAVINGS' BANKS.

Savings' banks are banks formed to promote saving.—They are purely banks of deposit; they differ, however, from other banks of deposit in the following particulars:—First. Very small sums are received as deposits.—Secondly. All the money deposited is lent, upon interest, to the government.—Thirdly. The depositors are restricted as to the amount of their lodgments; these restrictions are designed to exclude from the bank all except the humbler classes of the community.

Loan banks, or institutions for lending money to the poor, are of ancient date; but savings' banks, or institutions for borrowing money of the poor, are entirely of modern inven-

tion. They were first urged upon the attention of the public and the legislature of this country, in the years 1815 and 1816, by the late Right Hon. George Rose. In his pamphlet upon the subject, he thus traces the origin of these establishments :—

"The idea was first suggested by the society for bettering the condition of the poor, of which I have long been a member, and it has been acted upon in Edinburgh and Bath with such a degree of talent, zeal, and perseverance, as to manifest the great advantage of it.

"In other parts of Great Britain, however, the principle has been acted upon on a small scale, especially in Scotland, where the *parochial* institutions for savings are called Maneges; so full an account of these is given by Mr. Duncan, the early promoter of them, as to render it quite unnecessary to enter on any particulars respecting them here. But however well intended they are, there are strong objections to them. In any event, extended establishments are infinitely more to be desired, on account of the preferable management of them, as well as for the safe custody of the money. By a large district being included, gentlemen of property are found to become trustees and managers; and a fund is easily furnished by small voluntary subscriptions at first, and by the surplus of the interest allowed to the depositors afterwards to meet all the expenses of the institution.

"Since the first publication of these observations, a controversy has arisen by Mr. Duncan, the promoter of the parochial banks, insisting upon his having (by the establishment of the one at Ruthwell) been the first to bring the banks for savings into notice, in an address to Mr. Forbes, a gentleman of the highest respectability in Edinburgh, who was a zealous promoter of the banks there. The truth is, that the two establishments are perfectly dissimilar, as above stated, which will appear more manifestly to whomsoever will take the trouble of reading the pamphlet of Mr. Duncan and the answer of Mr. Forbes to it. As far as respects Scotland, it would seem that the Edinburgh plan has the merit of priority, *for general advantage;* but it may be hoped that in future there may be no contention, except how the public can be most benefited —it is of very little importance from whence the suggestion originated."

Mr. Rose proceeds to explain in detail the nature of these institutions, and points out the advantages they may be expected to confer upon different classes of the community :—

"Apprentices, on first coming out of their time, who now too frequently spend all their earnings, may be induced to lay by five shillings to ten shillings a week, and sometimes more, as in many trades they earn from twenty-four shillings to fifty and sixty shillings a week.

"The same observation applies, though somewhat less forcibly, to

journeymen in most trades (whose earnings are very considerable) from not beginning so early, and to workmen in several branches. With respect to these, it has been made evident to me, and to many members who attended the mendicity committee in a former session of parliament, that in numerous instances when the gains have been as large as above stated, the parties have been so improvident as to have nothing in hand for the support of themselves and families when visited with sickness, and have consequently with their families fallen immediately upon the parish. In some instances the tools and implements of their trade have been carried to the pawnbroker during illness, whereby difficulties were thrown in the way of their labour being resumed on the restoration of health.

"Domestic servants, whose wages are frequently more than sufficient for their necessary expenses.

"Carmen, porters, servants in lower conditions, and others may, very generally, be able to make small deposits, without finding the slightest inconvenience from the diminution of their income occasioned thereby.

"With respect to day labourers, the full advantage cannot be expected to be derived at first, as far as relates to married men with families: it too frequently happens that when there are two or three children, it is all that the father can do to support himself and those dependent upon him with his utmost earnings; but the single man, whose wages are the same as those of his married fellow-labourers, may certainly spare a small weekly sum, by doing which he would, in a reasonable time, have saved enough to enable him to marry with a hope of never allowing any one belonging to him to become a burthen to the parish.

"Nothing is so likely as a plan of this sort to prevent early and improvident marriages, which are the cause, more than any others, of the heavy burthen of the poor rates. When a young single man shall acquire the habit of saving, he will be likely to go on till he shall get together as much as will enable him to make some provision towards the support of a family, before he thinks of marrying.

"The welfare of the lower classes of society cannot be a matter of indifference to any, nor can it be doubted that their situation will be ameliorated by the adoption and promotion of these banks. The industry, sobriety, and economy among the lower orders of the people will thus be promoted by their being encouraged to make little savings for a provision against want and distress; and their moral improvement will be advanced, while their social comfort is augmented. By the plan which I here recommend, this beneficent and most important object will be obtained at no expense to the higher orders, or at so trifling a one as to be utterly unworthy of notice.

"This plan has in it the germ of valuable moral principle, and if it can be fairly brought into action, will tend more than anything to lessen the enormous and increasing burthen on the middle and higher classes, and at the same time to infuse into the minds of the lower order a legi-

timate spirit of independence. Its merits are so well expressed where its advantages were early experienced, that I cannot do so well as to quote a few words from one of the Edinburgh reports:—'It secures independence without inducing pride—it removes those painful misgivings which render the approaches of poverty so appalling, and often paralyze the exertions that might ward off the blow. It leads to temperance and the restraint of all disorderly passions, which a wasteful expenditure of money nourishes. It produces that sobriety of mind and steadiness of conduct which afford the best foundation for the domestic virtues in humble life. The effects of such an institution as this upon the character of the people, *were it to become universal, would be almost inappreciable.*'"

In the year 1817, Mr. Rose obtained an Act of Parliament, entitled, "An Act to encourage the establishment of Banks for Savings in England."

About the same time an Act was passed, entitled, "An Act to encourage the establishment of banks for savings *in Ireland;*" the provisions of which were similar to the preceding.

In order to establish a savings' bank it will be necessary, in the first place, that the persons friendly to the undertaking meet together and appoint trustees. Some of the trustees should be gentlemen of known influence and respectability in the district: others should be persons likely to attend and take active part in the management.

Scotland has always had the advantage of savings' banks by means of the deposit system, which is a regular branch of the business of the commercial banks. The deposit system of banking is universally considered to be one cause of the prudence and frugality by which the lower classes of the people of Scotland are distinguished.

In every point of view the savings' banks appear calculated to produce unmingled good. They extend to persons of small means all the benefits of banking. The industrious have thus a place where their small savings may be lodged with perfect security from loss, and with the certainty of increase. They tend to foster that disposition to accumulate which is usually associated with temperance and prudence in all the transactions of life. Upon the mercantile interests of society they have the same effect as commercial banking. The various small sums which were previously lying unproductive in the

hands of many individuals, are collected into one sum and lodged in the public funds. The tendency of this, in the first place, is to raise the price of the funds. This advanced price may cause some of the holders to sell out and to employ their money in trade and commerce. Thus the savings' banks augment the productive capital of the nation.*

It is much to be regretted that the advocates for savings' banks should ever have proposed these institutions as substitutes for benefit societies. Cannot the interest of one excellent institution be promoted but at the expense of another? Savings' banks are a useful addition to benefit societies, but cannot supply their place. A labourer pays to a benefit club about thirty shillings per annum, and for that payment he receives about eight shillings per week during the time of illness. If this sum be lodged in a savings' bank, how soon will a few weeks' illness exhaust the whole. It is no doubt the revelling and excess that have too often attended the meeting of benefit societies at public houses that have given rise to objections against them. It may be expected, however, that as our labourers and mechanics become better instructed these excesses will be avoided.

But while savings' banks do not supersede benefit societies, neither do benefit societies supersede the necessity for savings' banks. The benefit society is of use only in case of illness—in no other case has a member any claim upon its funds. He cannot draw out money to support his wife, to furnish his house, or to educate his children. The benefit societies are only to guard against calamity, not to increase enjoyment. By these, labourers may be saved from the parish workhouse, but they must also become depositors in a savings' bank if they wish to acquire independence.†

* The funds lodged in savings' banks at the end of the year 1864 amounted to 39,417,995*l.*; this being less by 1,840,373*l.* than in 1860, the last year before the institution of post-office savings' banks; but the funds lodged in these post-office banks amounted, at the end of 1864, to 4,993,124*l.*—*Annual Statistical Abstract of Progress of the United Kingdom.*

† By the Act of Parliament, 26 & 27 Vic., c. 87, the law relating to savings' banks is materially altered. The Act 27 & 28 Vict., c. 43, relates to Government Insurances and Annuities. Plain rules for the guidance of persons desiring to insure their lives, or to purchase Government Annuities, can be obtained at various post-offices, and without charge.

THE

HISTORY OF BANKING

IN

IRELAND.

Most of the following pages were written when Mr. Gilbart was a Manager of the Provincial Bank of Ireland, at Kilkenny, and at Waterford, and were subsequently published, partly under the impression that they might be read with interest by those who were connected with the banking establishments of Ireland, and partly as furnishing to himself an agreeable memorial of his residence in that country.

THE

HISTORY OF BANKING

IN

IRELAND.

THIS work will be divided into Three Sections.

SECTION I.—The History of Banking in Ireland previous to the establishment of the Bank of Ireland.

SECTION II.—The History of Banking in Ireland from the establishment of the Bank of Ireland to the establishment of the Provincial Bank of Ireland.

SECTION III.—The History of Banking in Ireland from the establishment of the Provincial Bank of Ireland to the present time.

SECTION I.

THE HISTORY OF BANKING IN IRELAND PREVIOUS TO THE ESTABLISHMENT OF THE BANK OF IRELAND.

THE state of banking in any country furnishes a criterion of the state of society which there exists. The following are the principal circumstances denoted by the formation of banks:—

1. The establishment of a bank indicates the security of private property.

Not only must the right of private property be recognized and established, but a form of government must be framed which is sufficiently strong and just to secure to each individual the possession of his right. If the government be too feeble to protect one individual of the community against the rapacity of another; or be despotic and tyrannical, so as not to circumscribe its own claims within the limits of law and

justice, few banks will be established. The former appears to have been the case with Europe under the feudal system, and is now the case with all countries which are not far advanced in civilization. The latter is the case with the despotic governments of eastern countries. Here the possession of property is attended with danger. A rich man may be sacrificed by the government, and his wealth confiscated. In such a state, men who have property, will, if possible, conceal it. To place it in the hands of a banker would be to invite the government to take possession of it. Besides, who, in such a state, would carry on the business of a banker? who would undertake the custody of other people's property, if by that means he endangered his head? Little would the government care whether the property in the banker's hands belonged to himself or to others. It would be quite sufficient to know in what place the treasure was to be found. Pretexts could easily be supplied, sufficient in the ruler's own judgment, to justify his beheading the culprit, and seizing on all the wealth in his possession. Hence we find few banks in such countries.

Nor do we find that banking flourished in this or any other country during the existence of the feudal system. Private property was not then sufficiently secure. The rapacity of the barons, and the wars they often carried on against each other, would soon have dispersed the wealth that might have been accumulated. Persons who had money buried it in the earth. During the middle ages, the chief bank was that of Venice. In that state the feudal system did not exist. Venice was an aristocratical republic. The nobles possessed all the power in the State; but then they possessed that power in their collective, and not in their individual capacity. No individual nobleman had a right to oppress a citizen. He had no serfs or slaves to labour on his estate. He was amenable to the laws which were established by the Senate; and these laws restrained as effectually the ambition of individual nobles as of private citizens. However inferior the government of Venice may have been to those of modern times, it was certainly far superior to any of the governments

by which it was surrounded. Venice was a commercial state, and a state cannot long remain commercial unless the right of private property be well secured. Commerce and liberty gave rise to banking.

2. The establishment of a bank indicates some degree of internal trade.

Banks are established to grant facilities to trade; and if there be no trade, there will be no banks. It is not the banks that give rise to trade, it is trade that gives rise to the banks; though, after trade is established, the institution of a bank extends trade. One branch of the banking business is to transmit money to distant places; but for this there can be no occasion, if there be no trade between distant places. Banks grant pecuniary accommodation to the manufacturer. But manufactures must be too limited to need supplies from a bank if all the articles manufactured are consumed in the immediate neighbourhood. Such manufacturers can never be sufficiently wealthy to want a place of deposit for their superfluous capital, nor can their business be sufficiently extensive to warrant the establishment of a bank for their accommodation.

The want of a free commercial intercourse between the different parts of the country, was a great obstacle to trade, and consequently to the establishment of banks under the feudal system. Each baron was to a certain degree an absolute monarch on his own estate. He imposed what taxes he pleased on all goods removed from his territory, or which were even conveyed through his lands. The purchase and sale of goods were regulated at his pleasure; and as each baron possessed the same power, all commercial intercourse between their respective estates was in a manner interdicted.

3. The establishment of a bank indicates that the practice has been introduced of dealing upon credit.

A banker is a dealer in capital. He is the intermediate party between the borrower and the lender. He borrows of those who have money to lend, and he lends to those who want to borrow. But this cannot be done without credit. —On both sides there must be trust. The parties who lend

must trust the banker, and he must trust those who borrow of him. But this will not be done until commerce is so far advanced that transactions of considerable importance are performed upon credit. In the infancy of commerce all trade is carried on with ready money. Before good roads are formed and posts are established, trade between distant places is carried on by merchants in a body, who associate together in considerable numbers, and meet at fixed times at particular places, whence they commence their journey to the country with which they intend to traffic. When arrived at the place where the market is held they dispose of their goods for ready money. They then lay out their money in the purchase of other goods with which they return. Such was the practice with the merchants of the East who formed the immense caravans that formerly traded between Europe and India; and such is the practice of similar caravans that now trade between Egypt and Mecca. In these cases all the transactions are carried on by ready money. The bankers (if such they may be called) are mere money-changers. They exchange the money of the country in which they live for the moneys of other countries. Such was probably the business of the money-changers who were expelled from the temple of Jerusalem: such, too, was the business of many persons in European countries in former times.

4. The establishment of a bank indicates that capital has considerably accumulated.

Is a bank intended for a place of security? Who, before the accumulation of capital, has wealth he is anxious to secure? Is a bank intended as a place of deposit where those who have money may lend it upon interest? But who, before the accumulation of capital, has money to lend? Is a bank intended for a place where those who want to borrow money may go and obtain it? But where, before the accumulation of capital, can the bankers procure the treasure to advance? It is obvious that banking must be a poor business in a poor country—it is not until commerce, and wealth, and luxury have extended widely, that banking becomes a profitable occupation.

5. The establishment of a bank indicates that it is not deemed unjust to take interest for the loan of money.

Nothing can be more consistent with the principles of natural equity than that he who borrows money with a view of making a profit by it, should give to the lender some portion of the profit which he makes. No doctrine could be more destructive to banking than that the taking of money for the loan of money was sinful; and as long as this practice was stigmatized with the name of usury little banking could exist. But as commerce increased this doctrine became obsolete. It was soon discovered that this sentiment was unjust and injurious; and that however well it might have been adapted to an Eastern agricultural nation, it was altogether inapplicable to the state of modern commerce.

The above observations appear to be equally applicable to all banks, whether public or private. Without the security of property—without trade, credit, capital, and interest, few banks can be established. And whenever a new bank is established in consequence of the additional wants of the neighbourhood, it shows that the trade, capital, and wealth of that place are on the increase, and the establishment of a bank will probably increase them to a still greater extent.

Some of the above remarks may serve to account for the slow progress that banking made in Ireland. To be enabled to trace that progress during the period to which this section refers, I have had recourse chiefly to the Acts of the Irish Parliament. These are, I believe, the principal public documents from which authentic information can be obtained.

1447. In this year an Act* was passed against clipped money, money called O'Reyley's money, and other unlawful money, and against gilt bridles, peytrells, and other gilt harness. The following are the words of the Act. "For that, that the clipping of the King our Sovereign Lord's coin hath caused divers men in this land of Ireland to counterfeit the same coin to the great hurt and destruction of the said land, and the making of gilt bridles and peytrells hath also wasted and consumed the gold of the said land for the more part, and

* 25 Henry VI. c. 6.

is likely to do more hereafter, if it be not specially remedied: Wherefore, it is ordained and agreed by authority of this present Parliament, that no money so clipped be received in any part of the said land from the first day of May next to come, nor the money called O'Reyley's money, or any other unlawful money, so that one coyner be ready at the same day to make the coyn. And also, that no man be so hardy henceforward to use any gilt bridles, peytrells, nor any other gilt harness in no place of the said land, excepted knights and prelates of holy churches. And if any man be found with any such bridle, peytrell, or other harness, gilted from the same day, that it be lawful to every man that will, to take the said man, his horse and harness, and to possess the same as his own goods."

In the same year, an Act* was passed levying a tax of twelve-pence per ounce on all silver bullion exported. The preamble states, That "this land of Ireland is greatly impoverished from day to day by the great deduction and carriage out of the said land into England of the silver plate, broken silver bullion, and wedges of silver, made of the great tonsure of the money of our Sovereign Lord the King, by his Irish enemies and English rebels, and Irish money called Reyley's, do increase from day to day." Lords and messengers to England upon public business were permitted to take their plate with them, "according to their beings and estates."

1457. Another Act was passed to restrain the exportation of silver. It enacts, that all merchant strangers shall pay custom at the rate of forty pence per pound on all silver exported; and inflicts a penalty of twenty shillings for every penny concealed.†

1463. An Act‡ was passed against clipped money. After stating that the "groat, the half-groat, and the penny, and other coins, are lost and destroyed by divers and many clippings," it enacts, that clipped money shall not be taken in payment, nor accounted the King's coin after the feast of the Purification of our Lady next ensuing.

* 25 Henry VI. c. 10. † 35 Henry VI. c. 2.
‡ 5 Edward IV. c. 3.

1634. An Act* was passed to restrain usury. It limited the rate of interest to ten per cent. per annum. Persons receiving more were made liable to a penalty of three times the amount of the principal, and the agreement was void. "Scriveners, brokers, solicitors, and drivers of bargains for contracts," were not allowed to take more than five shillings for the procuring a loan of one hundred pounds for a year, nor to charge more than twelve-pence for the making the bond or the bill for the loan thereof. These persons were probably at that time the only bankers in the country.

1704. The legal interest of money reduced to eight per cent. The Act† states, that at that time there was a great abatement in the value of land and of merchandize, and that the high rate of interest made men unable to pay their debts; that consequently they are forced to sell their lands and stocks at very low rates, to forsake the use of merchandize and trade, and to give over their leases and farms, and so become unprofitable members of the commonwealth.

1709. Was passed an "Act‡ for the better payment of inland bills of exchange, and for making promissory notes more obligatory." Bills of exchange of £5 and upwards drawn in Ireland upon persons in Ireland, may be protested either for non-acceptance or non-payment in the same way as foreign. And notice of such protest must be given within fourteen days afterwards to the party from whom such bills were received. Promissory notes were put on the same footing as inland bills of exchange. Notes issued by any "banker, goldsmith, merchant, or trader," whether payable to order or bearer, were rendered assignable and indorsable over as inland bills of exchange, and the indorsee might sustain an action thereon. Previous to the passing of the Act, it was considered doubtful whether promissory notes of any kind were legally transferable by indorsement. But such transfers were now declared legal as they had been a few years before in England.§ I have not observed that the word "banker" occurs in any Act of the Parliament of Ireland previous to

* 10 Charles I. c. 22. † 2 Anne, c. 16. ‡ 8 Anne, c. 11.
§ See 9 & 10 Will. III. c. 17; 3 & 4 Anne, c. 9.

this. Fourteen days appear a long term for notice of a protested bill, but perhaps the obstructions to a rapid communication between different parts of the island were at that time considerable.

1721. The legal interest of money reduced to seven per cent.* The reason assigned for this reduction is stated in the preamble of the Act to be, That "at this time there is a very great abatement in the value of divers merchandize, wares, and commodities of this kingdom both at home and also in foreign parts whither they are transported."

In the same year an Act was passed for better securing the payment of bankers' notes.† It enacted that notes not paid on demand should bear interest; that bankers should not fraudulently alienate any part of their property; and that after their death their real estates should be accountable for payment of their notes. This Act was repealed by 33 Geo. II. c. 14. From this Act it appears that at that time "the trade of this kingdom was partly carried on by the means of cash notes given by bankers," and that the "trade or calling of a banker" was followed, or exercised, by "the keeping a public shop, house, or office for the receipt of the money of such persons as were willing to deposit the same in their custody;" and the bankers gave or issued promissory notes for the payment of the money so deposited on demand or on a certain day. Hence, it is evident, that the bankers' notes in Ireland were like the goldsmiths' notes in England—RECEIPTS for money that had been lodged in their hands.

1729. The forging of bills of exchange, goldsmiths' or bankers' notes above the value of £5, declared felony; and the felon to be burnt in the hand or transported at the pleasure of the court. Criminals, who had stolen bills or notes, liable to the same punishment as though they had stolen goods of the same value.‡

1731. The legal interest of money reduced to six per cent. where it still remains. The preamble to this Act will show the opinions which were then entertained respecting the effects of a high rate of interest. They appear to be similar

* 8 Geo. I. c. 13. † 8 Geo. I. c. 14. ‡ 3 Geo. II. c. 14.

to those of Sir Josiah Child:—"Whereas the reducing of interest to eight, and from thence to seven in the hundred, hath by experience been found to be very beneficial to the advancement of trade and improvement of lands; and, whereas there is at this time a very great abatement in the value of divers merchandize, wares, and commodities of this kingdom, both at home and also in foreign parts whither they are transported; which is in a great measure occasioned by foreign merchants being able to procure money at less expense, and for less interest than the merchants in this kingdom, by which means they can give greater prices for their native commodities and manufactures, and sell them cheaper abroad by having a greater gain in proportion to their risk from their freight, cheaper by the lowness of interest: And, whereas the value of lands would rise at home, and the owners and occupiers of lands would be enabled to improve them by fencing, draining, manuring, and otherwise cultivating them; and manufactures, and other useful arts and fisheries, might be improved upon procuring money at an easy interest: And also, usurers and others, who now live upon the interest of their money, would betake themselves to some useful art, calling, or trade, or become industrious improvers of the lands of this kingdom, which they cannot now do to any profit whilst the interest on loan continues at so high a rate as seven pounds in the hundred pounds for a year; which mischiefs cannot be prevented, nor improvements made, without reducing interest to a nearer proportion with the interest allowed for money in foreign states; be it therefore enacted," &c.

1733. An Act passed for the relief of the bank lately kept by Samuel Burton and Daniel Falkiner; and of the bank lately kept by Benjamin Burton, Samuel Burton and Daniel Falkiner; and of the creditors of the bank lately kept by Benjamin Burton and Samuel Burton; and the creditors of the bank lately kept by Benjamin Burton and Francis Harrison.

1735. An Act was passed to amend the above Act. This bank carried on business in Dublin from the year 1700 to 1733, and then failed. In the meantime some of the early partners had purchased estates with the money deposited in

the bank; and these Acts were passed to enable the creditors to sell those estates. The different names denote the changes which took place in the firm.

1737. The 'London Magazine' of this year contains "some queries in relation to Ireland, from a piece called the Querist, published there." Among these queries are the following:—"Whether it be not a notorious truth that our Irish ladies are on a foot as to dress with those of three times their fortune in England? Whether therefore a tax on all gold and silver in apparel, on all foreign laces and silks, may not raise a fund for a bank, and at the same time have other salutary effects on the public?"

1751. An Act passed to amend the two Acts passed in 1733 and 1735.

1753. The following evidence respecting the state of Banking in this year was delivered by William Colville, Esq., Director of the Bank of Ireland, before a Parliamentary Committee in 1804:—

"I remember perfectly well that, in 1753, the circulation of paper in Dublin from the private bankers was so general and extensive, that in receiving 1,000*l.*, there was not 10*l.* of it in gold at that time. I remember that exchange was near three per cent. above par; the consequence of which was, that the bankers of Dublin, of whom there were as many as at present, if not more, were in competition with one another to send their specie over to London, and to get bank bills at four per cent. above par, bringing a clear profit to that extent. The consequence of this showed itself in the succeeding year; all the banks failed except Messrs. Latouche's house, and Sir William Newcomen's, under the name at that time of Gleadowe and Co.; and these two banks paid off their entire paper: there followed a total annihilation of bank paper in Ireland at that time, and I remember it was said with triumph, that Ulster, the great seat of our linen manufactory, was safe, because she had no such thing as bank paper in that province. The consequences were, that exchange fell two or three per cent. under par, and the whole circulation of Ireland was turned from paper into gold; but the result was, that multitudes of people were ruined; the convulsion was exceedingly severe, many tenants threw up their lands, and there was no person connected with the three southern provinces of Ireland that did not suffer either immediately or remotely."

1755. The following Acts were passed this year. By "an Act to promote public credit," the partners of a bank

were required to insert all their names in every receipt or note they issued, and were prohibited trading as merchants. Cashiers or clerks of bankers embezzling money to the value of £50, were declared guilty of felony, without benefit of clergy.

An Act passed for the relief of the creditors of the bank lately kept by William Lennox and George French, of the city of Dublin. The above bank was carried on in Dublin from 1751 to 1755, when both the partners absconded. As their creditors were numerous, and the ordinary mode of legal settlement difficult and expensive, this Act was passed to afford a more speedy remedy.

An Act for the relief of the creditors of the bank lately kept by John Willcocks and John Dawson; and of the creditors of the bank lately kept by Joseph Fade and John Willcocks; and of the creditors of the bank lately kept by Joseph Fade, Isachar Willcocks, and John Willcocks; and of the creditors of the bank lately kept by Joseph Fade; and for raising out of the estates real and personal of Richard Brewer, late the cash-keeper of the said John Willcocks and John Dawson, the sum due by the said Richard Brewer to the said John Willcocks and John Dawson.

The above bank was carried on in Dublin for several years by Richard Fade, who in 1728 took into partnership Isachar and John Willcocks. The bank failed on March 3, 1755, through the dishonesty of the cashier, Richard Brewer.

An Act for the relief of the creditors of the bank lately kept in the city of Dublin, by Theobald Dillon and Sons, by Thomas Dillon and Company, and by Thomas Dillon, Richard Farrell and Company. This bank stopped payment on March 6, 1754.

1757. An Act passed to carry into more effectual execution the Acts passed in 1733 and 1735 relative to the bank of Burton and Falkiner.

1759. An Act passed for the speedy and effectual payment of the creditors of the bank kept by the Right Honourable Anthony Malone, Esquire, the Right Honourable Nathaniel Clements, Esquire, and John Gore, Esquire.

This bank commenced on July 3, 1758, and stopped payment on the following November. They granted receipts payable seven days after demand with interest at tenpence per week for every £100—interest to commence three days from the date of the receipt.

1759. The Bankers' Act passed, 33 Geo. II. c. 14. This Act is pre-eminently styled "the Bankers' Act," being the principal Act passed for the regulation of bankers in Ireland. The chief objects appear to be to prevent fraud on the part of the banks, and to fix the mode of winding up their affairs when they stop payment. All deeds of conveyances executed by bankers are declared void, unless registered within one month after execution, or within three months, if executed out of Ireland, except leases not exceeding three lives or thirty-one years, made at the full improved rent without fine. All grants of real estate or leasehold interest, made by bankers to children or grandchildren, are void against creditors, although made for valuable considerations; and although such creditors were not creditors at the time such grants were made. After stopping payment, their receipts are no discharge; and after absconding, their conveyances are void, and their estates and effects are subject to debts without regard to priority, except debts contracted before they became bankers, or those duly registered, and their persons are protected only in case they are Members of Parliament. Within three months after stopping payment, a banker may invest his estates, &c., in trustees, to be approved by the majority of the creditors, or by the Lord Chancellor. No person intrusted with the public money was allowed to be a banker. No banker was allowed to issue notes bearing interest; but if their notes were not paid on demand, the holder could demand interest until the time of payment. All demands upon bankers must be made within three years after they have stopped payment or have retired from business, and in failure of making such demand the creditor shall be barred from suing in law or equity, and the defendant in such cases may plead payment and give this Act in evidence.

Mr. Pierce Mahony delivered the following evidence before

a Committee of the House of Commons in 1826, respecting the provisions of this Act :—

"In what respect does the law of Ireland with regard to banking differ from the law of England?—The Act of 33 George II. c. 14, is what is called the Irish Bankers' Act. There are several objectionable clauses in that, which, if the Committee wish, I will point out. It provides that conveyances, leases, &c., by bankers, except leases for three lives or thirty-one years at a full improved rent without fine, should be void, unless registered within one month, and three months if executed out of the kingdom; and conveyances, leases, and other dispositions made to children or grandchildren, even for valuable consideration, are void, not only against existing, but against subsequent creditors.

"But not void if made to other parties?—No, if duly registered pursuant to that Act; but even if duly registered, they are absolutely void, though for a valuable consideration, if made to children or grandchildren, though from the imperfect wording of the Act, those conveyances for valuable consideration, when duly registered, would be valid, if made to a brother, a son-in-law, daughter-in-law, or any other person, the Act being confined in its operation to a son or grandson, daughter or granddaughter.

"Though the person is solvent at the time of executing the conveyance?—Certainly, by the fourth section, notes and receipts expressed to be payable with interest are void; there is no penalty upon the banker for issuing them, and the penalty, which amounts to a forfeiture of the money lodged, is upon the creditor who should happen to take them.

"Is there any other provision of the Irish law that differs from the English?—The whole of this Act is confined to Ireland, and there is no similar Act in England. I have mentioned the leading objections, and I think there is nothing so injurious to Ireland, as not to allow of a legal enactment by bankers by their ordinary receipts, &c., issued in business to pay interest, because I think if that was allowed by law, it would encourage deposits with bankers, and it would operate as a savings bank to persons of a better quality, tending to encourage the growth of capital and frugal habits, as in Scotland.

"At the time the Act you have referred to was passed there was no bankrupt law in Ireland at all?—None.

"And it was in consequence of that, that that Bankers' Act was passed?—It was.

"When the bankrupt laws were passed in Ireland were not bankers included in it as well as other traders?—Yes.

"Then is it not the fact that in several instances proceedings have been taken against insolvent bankers in some instances under the bankrupt laws, and in others under the Bankers' Act?—Certainly.

"Do you consider that to be a desirable course of proceeding?—A most injurious one; I scarcely know an instance of a banker's estate

being wound up under this 33 George II. c. 14, unless through the intervention of the Court of Chancery. The case of Cotter and Kellett, of Cork, is a most melancholy instance of it, and Warren's also of Cork.

"How long ago is it since the failure of Cotter and Kellett?—They failed in 1807, and the estate is not wound up yet. Warren's failed in 1784, and the notes were only paid in last June; the parties were litigating in the Court of Chancery the whole of the intervening time.

"Were those proceedings attended with very heavy expense to the parties?—Ruinous expense.

"Did a large portion of the property liable to the payment of the debts become useless for that purpose?—In that case of Cotter and Kellett, I recollect perfectly well at the time of the failure, it was calculated, and stated publicly, that they had property equal to 40*s.* in the pound; the last dividend is now about to be made, and I believe it will make the whole dividend 9*s.* 6*d.* or 10*s.*

"Is it your opinion that if the bankers' law in Ireland had been similar to that in England, those delays would not have happened?—Certainly."

1763. An Act passed to carry into more effectual execution, the Act passed in 1755, relative to the bank of Willcocks and Dawson.

1770. Dec. 4.—This day the following advertisement appeared in the Dublin Journal, signed by His Excellency the Lord Lieutenant, and a great number of the nobility.

"Whereas the bank of Sir George Colebrook and Co. have advertised their being under the necessity of deferring the payment of their notes for a short time, which may cause a diffidence in the other banks of this city that may prove extremely injurious to the trade and manufactures of this kingdom, now we, the Lord Lieutenant of Ireland, the nobility, gentry, merchants and traders of this city, whose names are hereunto subscribed, being thoroughly sensible of the secure foundations of the houses of Messrs. David Latouche and Sons, Messrs. William Gleadowe and Co., Messrs. Thomas Findlay and Co., and Messrs. John Dawson, Coates, and Patrick Lawless, do hereby declare that we will continue to take the notes of the said houses as cash in all payments made to us.—Dublin, Dec. 3, 1770."

1771. The first bankrupt Act passed in Ireland. Bankers who had committed an act of bankruptcy might be made bankrupts, or their affairs might be settled according to the Bankers' Act passed in 1759.

1773. Forgery of any bill of exchange, or note, rendered punishable with death.

1777. A Loan bank established. The Act is entitled "An Act for incorporating the Charitable Musical Society for lending out money, interest free, to indigent and industrious tradesmen." The preamble states that a voluntary society had been instituted in the year 1756, for lending money to indigent tradesmen, interest free; and to render such society more effective, they are by this Act erected into a corporation. The members of the corporation were the Lord Lieutenant, the Lord Primate, the Lord Chancellor, the Lord Archbishop of Dublin, the Speaker of the House of Commons, the Judges, and several other noblemen and gentlemen therein named, and such others as should be elected pursuant to the Act. The corporation is empowered to receive gifts from charitable persons, and to lend out the money interest free, in sums not under forty shillings, nor above five pounds to any one person, and to take the borrower's note payable at such times and in such proportions as they shall think reasonable. The corporation were also empowered to appoint persons to lend on like terms in the manufacturing counties and market towns of the kingdom. They were allowed to lay out a portion of their funds in the purchase of lands and tenements, not exceeding in the whole the yearly value of one thousand pounds. The corporation were required to keep regular accounts, which should be open to the inspection of any member, or of any subscriber or benefactor.

SECTION II.

The History of Banking in Ireland from the establishment of the Bank of Ireland to the establishment of the Provincial Bank of Ireland.

In tracing the history of banking we may observe that most public banks have been formed, in the first instance, under the protection of the government of the state in which they were established. Such was the case with the Banks of Venice, Genoa, and Amsterdam; and such too was the case

with the Banks of England, of Scotland, and of Ireland. The former were closely connected with the state, and may properly be called "State Banks;" the latter had peculiar privileges bestowed by charter, and are usually called "Chartered Banks." These privileges may be divided into two classes—those which refer to the proprietors themselves, and those which refer to other parties. The privileges of the first class relate to the amount of capital, the form of government, the number of the directors, and the mode of their nomination, the meeting of the proprietors, and the specification of the branches of business the bank are allowed to carry on. The privileges of the second class refer to the restricted liability of the shareholders, and the prohibition of other parties carrying on the same business.

If the charters granted to banking companies conferred only the first class of privileges, they would be liable to but little objection. In the infancy of commerce and of banking, the assistance of the government may with propriety be granted to encourage the formation of institutions, so eminently calculated to promote the public advantage. But of what avail are prohibitory clauses? If no other persons are disposed to form similar institutions, then those prohibitions are a nullity. But if other parties are disposed to form similar companies, without the assistance of the government, then why should the government interfere at all? Why should they grant a charter to effect an object which can be effected without their assistance?

In the charter first granted to the Bank of England in 1694, there was no prohibitory clause. But when the charter was renewed in 1708, it was enacted, that no other company formed of more than six persons should carry on the business of banking in England. The charter granted to the Bank of Scotland, in 1695, contained the following prohibition—"That for the period of twenty-one years from the 17th of July, 1695, it should not be lawful for any other persons to set up a distinct company or bank within the kingdom of Scotland." This privilege was not renewed after the expiration of the twenty-one years; and in the year 1727, a charter without

any prohibitions, was also granted to the Royal Bank of Scotland. In the year 1746, the British Linen Company was formed, and carried on the business of banking as a joint-stock company. Subsequently this bank also obtained a charter, but without any exclusive privilege. Hence Scotland has had the advantage of chartered banks, and joint-stock banks, and private banks, all working well together without producing those effects which in this country have followed the prohibitory clauses of the charter of the Bank of England.

Both in its constitution and government the Bank of Ireland closely imitated the Bank of England; and it has produced in Ireland most of the advantages and evils which that establishment has produced in this country. It has supplied this country with a currency of undoubted solidity; it has supported public credit, it has granted facilities to trade, and it has assisted the financial operations of the government. On the other hand, its prohibitory clause necessarily led to the formation of many private banks, whose failure was the cause of immense wretchedness to all classes of the population.

The charter of the Bank of Ireland contained a clause, which prevented more than six persons forming themselves into a company, to carry on the business of banking in Ireland. In the year 1824, they surrendered this exclusive privilege as far as regards those places which are situated a greater distance than fifty Irish miles from Dublin; and in 1826, the Bank of England made a similar surrender, with regard to places at a greater distance than sixty-five miles from London. As eleven Irish miles are equal to fourteen English miles, fifty Irish miles are equal to about sixty-five English miles. But it must be observed, that Dublin is situated on the sea-coast, therefore the Bank of Ireland has only the monopoly of a semicircle, whose radius is fifty Irish miles. But London being situated inland, the Bank of England has the monopoly of a whole circle of one hundred and thirty English miles in diameter.

The Bank of Ireland was established by an Act of Parlia-

ment passed in 1782, 21 and 22 Geo. III. c. 16. The following are the provisions of this Act:—

The capital was £600,000, which was lent to government at four per cent. No one person was permitted to subscribe more than £10,000. If the bank incurred debts to a greater amount than their capital, the subscribers were answerable in their private capacity to the creditors in proportion to their subscriptions. The bank were not either to borrow or to lend money at a higher interest than five per cent., nor to engage in any business but banking. The stock to be transferable, and deemed personal estate, and as such to go to the executors of the holders and not to their heirs. No transfer of bank stock to be valid, unless registered in the bank books, in seven days from the contract, and actually transferred in fourteen days: the charter to expire at twelve months' notice after the first day of January, 1794, and repayment of all sums due by the government to the bank.

The charter is dated May 15, 1783, and contains as follows:—Such persons as should subscribe before January 1, 1784, the sum of £600,000, were to be formed into a corporation, to be styled the Governor and Company of the Bank of Ireland: the corporation were to have a governor, deputy-governor, and fifteen directors, which governor, deputy-governor, and directors, or any eight or more of them, shall be called a Court of Directors, for the management of the affairs of the corporation. The following are the directors nominated in the charter:—

Governor—David Latouche, Jun., Esq.

Deputy-Governor—Theophilus Thompson, Esq.

Directors.

Alexander Jaffray, Esq.
Travers Hartley, Esq.
Sir Nicholas Lawless, Bart.
Amos Strettle, Esq.
Jeremiah Vickers, Esq.
John Latouche, Esq.
Abraham Wilkinson, Esq.
George Godfrey Hoffman, Esq.
William Colvill, Esq.
Peter Latouche, Esq.
Samuel Dick, Esq.
Jeremiah D'Olier, Esq.
Alexander Armstrong, Esq.
George Palmer, Esq.
John Allen, Esq.

The above to continue in office until March 25, 1784.

Fifteen directors shall be chosen annually between March 25 and April 25, in each year, and not above two-thirds of the directors of the preceding year to be re-elected.

The notice for the meeting of general courts of proprietors, to be affixed upon the Royal Exchange in Dublin, at least two days before the time of meeting. The qualification for a voter at a general court shall be 500*l.* stock, to be held for six months preceding, unless it came by will, marriage, &c. The qualification for governor shall be 4000*l.* stock, and for deputy-governor 3000*l.*, and for director 2000*l.* The governor must make and subscribe the declaration, pursuant to an Act of Parliament passed in the kingdom of Ireland, entitled, "An Act to prevent the farther growth of Popery." He shall also take the oaths of allegiance, supremacy, and abjuration, and also the following:—

"I, A. B., do swear that the sum of four thousand pounds sterling of the capital stock of the body politic, called by the name of the Governor and Company of the Bank of Ireland, whereof I am appointed or elected to be governor, doth at this time belong to me, in my own right, and not in trust for any other person or persons."

And likewise another oath, in the form or to the effect following:—

"I, A. B., being nominated or elected to be governor of the company of the Bank of Ireland, do promise and swear, that I will, to the utmost of my power, by all lawful ways and means, endeavour to support and maintain the body politic of the Governor and Company of the Bank of Ireland, and the liberties and privileges thereof; and that in the execution of the said office of governor, I will faithfully and honestly demean myself according to the best of my skill and understanding. So help me God."

Oaths, somewhat similar, are to be taken by the deputy-governor, directors, and shareholders, according to their respective circumstances, previous to voting. Quakers are allowed to make an affirmation: and "any person or persons, professing the popish religion shall, instead of the said declaration and oaths of allegiance, supremacy, and abjuration, be at liberty in order to entitle them to vote as aforesaid, to take the oath appointed to be taken instead of the said oaths, by an Act of Parliament passed in this kingdom, in the 13th and

14th years of our reign, entitled, An Act to enable his Majesty's subjects, of whatever persuasion, to testify their allegiance to him." The board of directors have also power to administer an oath to all their agents or servants, in the following form:—

"I, A. B., being elected in the office or place of ——— to the governor and company of the Bank of Ireland, do swear (or solemnly declare, as the case may be) that I will be true and faithful to the said governor and company, and will faithfully and truly execute and discharge the said office or place of ——— to the utmost of my skill and power."

No dividend shall at any time be made by the said governor and company, save only out of the interest, profit, or produce, arising by or out of the said capital, stock or fund, or by such dealing, buying, or selling as is allowed by the said Act of Parliament. Nor without the consent of the members of the said corporation, in a general court qualified to vote as aforesaid.

The governor, or deputy-governor, shall summon four general courts at least in every year. One in the month of September, one in December, one in April, and another in July.

The governor or deputy-governor shall also summon a general court, whenever requested to do so by nine members, each holding 500*l.* stock.

If governor and deputy-governor be absent one hour after the usual time of proceeding, at any general court or court of directors, a chairman shall be chosen for that time only, who shall have like privileges as the governor or deputy-governor.

Governor, deputy-governor, or chairman, not to vote in general courts, or court of directors, save when there shall happen to be an equal number of votes on each side.

The Bank of Ireland appears to be empowered to act as a loan bank. The following are the words of the charter:—

"The said governor or deputy-governor and directors, or the major part of them, shall and may direct and manage all the affairs and business of the said corporation, in the borrowing and receiving of moneys, and giving securities for the same, under the common seal of the said corporation, and in their dealings in bills of exchange, or the buying

and selling of bullion, gold, or silver, or in selling any goods, wares, or merchandises whatsoever, which shall really and *bonâ fide* be left or deposited with the said corporation for money lent or advanced thereon, and which shall not be redeemed at the time agreed, or within three months after; or in selling such goods as shall or may be the produce of lands purchased by the said corporation; or in lending or advancing any of the moneys of the said corporation, and taking pawns, or other securities for the same."

The Bank of Ireland commenced business at St. Mary's Abbey, June 25, 1783.

1784. A bank was established in Belfast. They had scarcely any circulation, as they paid in gold. They gave up business in the year 1798, at the time of the Rebellion.

1791. By 31 Geo. III. c. 22, the capital of the Bank of Ireland was increased from 600,000*l.* to 1,000,000*l.*, and the charter extended until the expiration of twelve months' notice after the first day of January, 1816, being a renewal of the charter for twenty-two years. The proprietors of the old stock were allowed to subscribe for two-thirds of the new stock. The whole sum of 400,000*l.* subscribed to be paid into the Treasury for the use of his Majesty.

1797. The capital of the Bank of Ireland increased by 37 Geo. III. c. 50, from 1,000,000*l.* to 1,500,000*l.* The proprietors of the old stock allowed to subscribe for the whole of the new stock, in proportion to the sums standing in their respective names.

1798. The Bank of Ireland suspended its cash payments on the 3rd of March. Immediately on the passing of the Restriction Bill, the bank issued small notes and post bills under 5*l.*

1799. A law passed for confining the issue of notes between 20*s.* and 5*l.* to the Bank of Ireland only. Private banks were permitted to issue bank post bills of three guineas and upwards under certain limitations. This was the first law in Ireland, which restricted the negotiation of bankers' notes.

In this year the following banks were registered in Ireland. Banks were registered when first opened, and when any change took place in the firm :—

Names of Bankers.	Places where kept.	Date of Registry.
The Right Hon. John David Latouche, John Latouche, Peter Latouche, and William Digges Latouche	Dublin	Mar. 25, 1799
Sir William Gleadowe Newcomen, Bart., Arthur Dawson, and Thomas Gleadowe Newcomen	ditto	ditto —
John Finlay, Richard Nevill, Joseph Lynam, John Geale, and John Lynam .	ditto	ditto —
John Claudius Beresford, James Woodmason, and James Farrell	ditto	ditto —
Sir Thomas Lighton, Bart., Thomas Needham, and Robert Shaw	ditto	ditto —
Simon Newport and Sons	Waterford	March 27 —
Thomas Maunsell and Robert Maunsell .	Limerick	„ 28 —
Sir J. I. Lawrence Cotter, Bart., Richard Kellett, Esq., and Sir Richard Kellett .	Cork	„ 29 —
Sir Thomas Roberts, Bart., James Bonwell, and John Leslie	ditto	ditto —
John O'Neal	Waterford	May 24 —
John Finlay, John Lynam, John Geale, and Robert Law (in place of the firm registered on the 25th March, 1799) .	Dublin	August 1 —
Thomas Redmond and Matthew Weddup	Wexford	Sept. 5 —
Robert Woodcock	Enniscorthy	„ 14 —
Richard Codd, Jun., and Co.	Wexford	Oct. 2 —
Thomas Cullimore	ditto	„ 12 —
Robert Sparrow	ditto	Nov. 1 —
Peter Roe	New Ross	„ 4 —
Clementine Codd and Co.	Enniscorthy	„ 5 —
James Buckley and Co.	Dungarvon	„ 17 —
James Carpenter	Wexford	Dec. 23 —

1800. By the 40 Geo. III. c. 22, it was provided, that all bankers who had stopped payment since April 1, 1793, or who shall stop payment, and who shall have invested their property in trustees as required by the Bankers' Act, shall be discharged from their debts upon obtaining a certificate, signed by two-thirds of their creditors in number and value.

The following banks were registered this year:—

Names.	Places.	Date.
James Fallon	Dungarvon	Feb. 3, 1800
George Newenham	Cork	April 3 —
Simon Newport, Sir John Newport, Bart., and William Newport	Waterford	„ 12 —

Names.	Places.	Date.
William Williams	Kilkenny	May 17, 1800
N. C. H. Hatchell	Wexford	June 6 —
Stephen and James Roche	Cork	„ 17 —
Sir James Lance Cotter, Richard Kellett, Sir Richard Kellett, Knight, and Wm. Augustus Kellett	ditto	July 14 —
George and Peter Roe	New Ross	Sept. 10 —
William Williams and Michael Finn (in place of the registry on May 17, 1800) .	Kilkenny	Oct. 1 —
Conl. Loughnan and John Helsham . .	ditto	Sept. 23 —
Solomon Watson, John Watson, and William Watson	Clonmel	Nov. 1 —
Lewis Mansergh	Athy	Oct. 10 —
Joseph Pike	Cork	„ 16 —
John Anderson	Fermoy	Nov. 11 —

1801. In this year the following banks were registered:—

Names.	Places.	Date.
George Newenham, George Newenham, Jun., and John Leckey	Cork	Jan. 1, 1801
Robert Delacour and H. Galwey . . .	Mallow	„ 23 —
Thomas Bernard, Simpson Hackett, Richard Kearney, and William Hackett	Birr	Mar. 23 —
William Manning, Jun.	Rathdrum	April 13 —
Michael Hearn	Callan	Aug. 24 —
Thomas Roche and William Roche . .	Limerick	Sept. —

1802. An Act was passed (42 Geo. III. c. 87,) to enable the lord high commissioner or commissioners of his Majesty's treasury in Ireland for the time being, to sell, lease, convey, or dispose of the parliament house in the city of Dublin, and all the premises and appurtenances thereunto belonging to the Governor and Company of the Bank of Ireland for 40,000*l.* Irish currency, subject to such rents as the premises are now liable to. The money to be applied by the treasury as the parliament may direct.

The following banks were registered in this year:—

Names.	Places.	Date.
William Sparrow	Enniscorthy	Mar. 8, 1802
Walter Joyce and Mark Lynch . . .	Galway	Oct. 30 —
John Redmond	Wexford	Nov. 18 —
James Blaker and James Rawson . .	Leighlin Bridge	Dec. 4 —

1803. During this year the following banks were registered:—

Names.	Places.	Date.
John Rossiter and Co.	Ross	Jan. 21, 1803
Anthony Cliffe, John Colclough, John Berkeley Deane, and John Macleod .	New Ross	Feb. 18 —
Richard Wogan Talbot, the Hon. John Leeson, and Edward Glascock . . .	Malahide	Mar. 10 —
John Bennett, Thomas Macartney, Thomas Bernard, and Henry Macartney . . .	Carlow	April 1 —
Perrin and M'Dowell	Wicklow	June 15 —
James Scully and James Scully, Jun. . .	Tipperary	July 1 —
John Colclough, John Berkeley Deane, and Thomas Macleod	New Ross	
Eyre Evans, Jonathan Bruce, and William Roberts	Charleville	Sept. 9 —
Robert Langrishe and Anthony Graves .	Thomastown	Sept. 29 —

1804. In this year a Committee of the House of Commons was appointed to inquire into the state of Ireland as to its circulating paper, its specie and current coin, and the exchange between that part of the United Kingdom and Great Britain, and to report the same with their observations and opinions thereupon to the house.

The Committee divided their report into three heads.

1. "As to the fact of an unfavourable exchange existing, and to what extent.

2. "As to the causes which have created it.

3. "As to the remedies which can be resorted to for either removing, or alleviating the inconveniences arising from it."

Under the first head, the Committee observe—

"In Belfast, the bills of exchange are purchased by guineas; in Dublin, by Bank of Ireland and other bankers' notes: and if the exchange between Great Britain and Ireland be stated as it actually exists, where guineas are the circulating medium, your committee would be inclined to think, that the exchange is now, and actually has been in favour of Ireland; but if it is to be estimated by the rates which prevail where paper is the circulating medium, the exchange appears to be now, and to have been since 1798, uniformly against Ireland, and to have arisen to a degree wholly unprecedented. The former they would call the real, and the latter the nominal rate; and the difference between them arises, as far as your committee can form a judgment, from the depreciation of the circulating paper."

Under the second head the Committee state their opinion that this unfavourable state of the exchange arose from the Bank Restriction Act.

"It compelled the bank to refrain from sending into circulation gold, the only common medium between the two countries. It gave occasion to the great issue of paper which followed to replace the gold so withdrawn, and removed at the same time the best and most effective check against the depreciation of that paper, namely, its convertibility into gold at the will of the holder; it tended to encourage an unlimited and overabundant issue, by releasing the bank from performing their engagements, and by taking away from them the former criterion, namely, the diminution of their gold, which they were accustomed to look to for judging when their paper became excessive; it promoted a new and unrestrained trade in paper currency, and excited individuals to speculations which interfered with the steady natural rates of exchange. The number of speculators so encouraged contributed to raise the price of bills on England, which being paid for in depreciated paper, the rate of exchange rose proportionally."

Under the third head, the Committee point out as a remedy, that the Bank of Ireland should accumulate funds in London, and draw bills on London at fixed dates; the Committee state—

"In case of such event they would also strongly urge the doing away the name of exchange, and putting an end to its calculation, by equalizing the moneys of account and moneys of circulation in both countries, and the fixing the future interchange by bills at a stated number of days, adequate to defray the expense of remitting at all times, so as fully to adopt the same practice which prevails between Edinburgh and London, and between Liverpool and London."

With respect to the specie and current coin of Ireland, the Committee observe :—

"The evidence very fully points out the miserable situation of the silver coinage, or rather of the base metal and notes, and I. O. U.'s substituted in its place.

"This evil is clearly to be traced to the unfavourable exchange. The state of the exchange naturally caused the silver currency of Ireland, so long as it was degraded only in the same degree with the silver currency of England, to transfer itself to this country, where it would pass for the same sum as English silver money. The place of the Irish silver coin so withdrawn was supplied in many parts of Ireland by silver notes; but in Dublin, where notes of a very small description are not issuable, by an extremely base silver coin, which was privately fabricated in great quantities, and to which nothing but the want of any other

medium capable of effecting small payments could have given currency. Some impediments having arisen to the circulation of the very base silver, the attention both of the Bank of Ireland and of the government was called to this subject, and measures appear to have been taken in consequence of a communication with his Majesty's Privy Council, for the coinage and issue by the Bank of Ireland of a considerable quantity of dollars, at the price of six shillings per dollar. These Irish dollars contain the same quantity of silver with those lately issued by the Bank of England at five shillings British, and differ little in appearance, except in having the name and device of the Bank of Ireland in the place of those of the Bank of England.

"The copper coinage is so defective, that it appears there is not a mint halfpenny in circulation; and if it shall be thought expedient to equalize the currency by making the shillings contain only twelve pence, your committee submit the advantage of doing so, if it could be accomplished with due regard to other circumstances, before a new copper coinage shall take place, and the making the copper penny, halfpenny, and farthing of England equally current in Ireland, as the silver shilling and golden guinea, and to abstain from coining any copper with any separate device, or under any separate weight or description for Ireland."

The bankers registered this year were as follows:—

Names.	Places.	Date.
Sir Andrew Ferguson, Bart., Henry Alexander, and John Bond	Londonderry	Jan. 3, 1804
Richard Wogan Talbot, Edward Glascock (in place of the firm registered on the 10th of March, 1803)	Malahide	Jan. 27 —
William Williams and Michael Finn . .	Dublin	Feb. 25 —
Michael Furnell, Mathias Woodmason, and Henry Bevan	Limerick	Mar. 26 —

The following return was made by the collectors of the revenue of the total number of banks in Ireland, that issued bank notes, silver notes, and I. O. U.'s.

Banks issuing notes for even pounds or guineas only	Dublin . . .	6
	Waterford . .	1
Banks issuing gold and silver notes		28
Banks issuing silver notes only		62
Banks issuing I. O. U.'s		128
		225

In addition to these, the return stated that I. O. U.'s were issued by every shopkeeper and publican in Cork, and by several shopkeepers in Kinsale.

There were no banks in the following districts: Athlone, Belfast,

Clones, Coleraine, Donaghadee, Drogheda, Dunkalk, Ennis, Foxford, Dundalk, and Newport, Killybegs, Larne, Letterkenny, Lisburne, Mullingar, Newry, Sligo, Strabane, and Strongford.

An account of the amount of stamp duties received on account of bank notes or bank post bills in Ireland, with the duties of three-halfpence, threepence, and fourpence separately, and the names of the bankers for the year ending 5th January, 1804.

Bankers' Names.	Residence.	Three halfpence.	Three-pence.	Four-pence.	Total.		
					£	s.	d.
Finlay and Co. . .	Dublin	5,000	36,500	26,200	924	3	4½
Lighton and Co. .	Ditto	45,455	60,500	23,100	1,425	6	10
Beresford and Co. .	Ditto	42,500	117,300	29,500	2,223	10	10
Roberts and Co. . .	Cork	128,000	3,000	..	837	10	0
Cotters and Co. . .	Ditto	146,800	1,400	..	935	0	0
Roach and Co. . .	Ditto	35,004	2,075	..	244	14	3
Pike and Co. . . .	Ditto	64,100	..	100	402	5	10
Newport	Waterford . . .	36,600	6,500	3,500	368	6	8
Maunsell and Co. .	Limerick . . .	7,453	..	..	46	11	7½
Roach and Co. . .	Ditto	21,131	..	..	132	1	4½
Riall and Co. . . .	Clonmel	36,300	5,300	..	293	2	6
Watson and Co. . .	Ditto	34,400	1,500	..	233	15	0
Redmond and Co. .	Wexford . . .	1,800	1,900	..	35	0	0
Codd and Co. . . .	Ditto	4,000	..	..	25	0	0
Hatchell and Co. .	Ditto	5,400	1,700	..	55	0	0
Sparrow and Co. .	Enniscorthy . .	13,000	..	..	81	5	0
Williams and Co. .	Kilkenny . . .	4,000	500	..	31	5	0
Loughlan and Co. .	Ditto	1,000	1,000	..	18	15	0
Anderson and Co. .	Fermoy	23,900	..	..	149	7	6
Rawson and Co. . .	Athy	6,000	..	..	37	10	0
Delacour and Co. .	Mallow	51,600	..	2,000	355	16	8
Bernard and Co. .	Birr	41,500	2,496	1,800	320	11	6
Herron and Co. . .	Callan	15,825	..	..	98	18	1½
Giles and Co. . . .	Youghall . . .	13,000	1,000	..	93	15	0
Scully and Co. . .	Tipperary . . .	14,700	800	..	101	17	6
Manning and Co. .	Rathdrum . . .	800	..	..	5	0	0
Barron and Co. . .	Dungarvon . .	1,800	..	..	11	5	0
Tallon and Co. . .	Ditto	509	..	..	3	3	7½
Joyce and Co. . . .	Galway	68,632	..	..	428	19	0
Blacker and Co. . .	Leighlin Bridge	8,587	..	..	53	13	4½
Rossiter and Co. .	Ross	3,400	..	..	21	5	0
Cliff and Co. . . .	Ditto	21,800	5,400	400	210	8	4
Talbot and Co. . .	Malahide . . .	24,938	..	..	155	17	3
Foley and Co. . . .	Lismore	1,200	..	..	7	10	0
Trench and Co. . .	Tuam	67,703	1,900	..	446	17	10½
Perren and Co. . .	Wicklow . . .	1,800	..	..	11	5	0
Evans and Co. . .	Charleville . .	32,221	400	1,500	231	7	7½
Langrishe and Co. .	Thomastown .	24,240	630	115	161	5	10
Redmond and Co. .	Enniscorthy . .	5,400	..	..	33	15	0
Codd and Co. . . .	Ditto	22,500	..	..	140	12	6
Bennett and Co. .	Carlow	26,219	5,000	2,050	260	10	8½
		1,110,217	256,801	90,265	11,653	5	8½

As the law then stood, all notes under three guineas were required to be on a three-halfpenny stamp; under 10*l.*, on a threepenny stamp; and under 50*l.*, on a fourpenny stamp. The present stamp duties are:—under 5*l.*, three-halfpence; under 10*l.*, sixpence; under 50*l.*, eightpence; under 100*l.*, two shillings; 100*l.* and above, three shillings.

1805. The Act of 1799 repealed, and notes of any amount, not less than one pound, were again permitted to be issued by private bankers.

In this year notes under 1*l.* were abolished in Ireland. The following is the form of some of these notes, which I have in my possession:—

THE SILVER BANK.

I promise to pay the Bearer on demand Six Shillings, here or in Dublin, at No. 10, St. Andrew Street, in Notes of the Bank of Ireland.

Malahide, the 1st day of February, 1804.

For Richard Wogan Talbot and Edward Glascock.

SIX SHILLINGS. EDWARD GLASCOCK.

Entered.

MALAHIDE BANK.

I promise to pay the Bearer on demand Three Shillings and Ninepence-halfpenny, pursuant to Act of Parliament, here or at Messrs. Mason and Thomas, No. 10, St. Andrew Street, Dublin.

Malahide, 1st August, 1803.

For Richard Wogan Talbot, Honourable John Leeson, and Edward Glascock.

EDWARD GLASCOCK.

THREE SHILLINGS AND NINEPENCE-HALFPENNY.

Some were drawn in the form of cheques and signed by the banker's clerk, as the following:

Payable at the CALLAN BANK.

Pay the Bearer on demand One Shilling and One Penny, for account of .April, 1806.

W. DAVIS.

To Michael Kearn, Esq., Banker, Callan.

A book published a few years ago, entitled, "The Clubs of London," contains the following humorous account of a bank that issued small notes:—

"To speak of the banking system in Ireland during the late war, and, indeed, at the present day," said an Irish gentleman, one evening at Brookes's, "is as bad as talking of a fire to a man who has been burned out, and lost all his property in the flames. To such an extent was this species of robbery carried, at one time, that provincial or country notes were issued for sums as low as threepence; whilst those for six shillings were actually accounted high."

Another gentleman having expressed amazement at this state of things, the first speaker gave the following instance of the truth of his assertion:—

"In the town of Killarney," said he, "was one of those banks; the proprietor of which was a kind of saddler, whose whole stock in that trade was not worth forty shillings; but which forty shillings, if even so much, was the entire amount of his capital in the banking concern.

"I once accompanied a large party of English ladies and gentlemen to that enchanting spot; where, having amused ourselves for a few days, we were on the point of returning to Dublin, when one of the party recollected that he had in his possession a handful of the saddler's paper. Accordingly we all set out, by way of sport, to have them exchanged; one principal object being to see and converse with the proprietor of such a bank.

"Having entered the shop, which barely sufficed to admit the whole company, we found the banking saddler hard at work, making a straddle. One of the gentlemen thus addressed him:—

"'Good morning to you, sir! I presume you are the gentleman of the house.'

"'At your service, ladies and gentlemen,' returned the saddler.

"'It is here, I understand, that the bank is kept?' continued my friend.

"'You are just right, sir,' replied the mechanic; 'this is the Killarney Bank, for want of a better.'

"My friend then said—'We are on the eve of quitting your town; and as we have some few of your notes, which will be of no manner of use to us elsewhere, I'll thank you for cash for them.'

"The banker replied, 'Cash! plase your honour, what is that? is it anything in the leather line? I have a beautiful saddle here as ever was put across a horse; good and chape, upon my say so. How much of my notes have you, sir, if you plase?'

"This question required some time for an answer, calculation being necessary: at length my friend counted them out as follows:

			s.	d.
Three	notes	for 3*d.* each	0	9
Two	do.	for 4*d.* each	0	8
Two	do.	for 6½*d.* each, half a thirteen	1	1
Three	do.	for 8½*d.* each, three-fourths of a thirteen	2	1½
Two	do.	for 9*d.* each	1	6
One	do.	for 1*s.* 1*d.*, or one thirteen	1	1
One	do.	for 1*s.* 6*d.*	1	6
One	do.	for 3*s.* 3*d.*, or three thirteens	3	3
One	do.	for 3*s.* 9½*d.*, or three thirteens and a half	3	9½
			15	9

"'There, sir,' said he, are no less than sixteen of your promises to pay, for the amazingly large sum of fifteen shillings and ninepence, sterling money.'

* * * * * * * *

"'I should be sorry, most noble,' returned the banker, 'to waste any more of your lordship's time, or of those sweet beautiful ladies and gentlemen; but I have an iligant bridle here, as isn't to be matched in Yoorup, Aishy, Afrikey, or Merikey; its lowest price is 15*s.* 6½*d.*—we'll say 15*s.* 6*d.* to yer lordship. If ye'll be pleased to accept of it, there will be twopence halfpenny, or a threepenny note coming to your lordship; and that will close the business at once.'"

1808. The Belfast bank established. John Holmes Houston, Esq., a partner in this bank, delivered the following evidence before the Parliamentary Committee in 1826.

"Were you in business previous to the time when your bank was established?—Yes; I was in mercantile business; but I was originally a partner in that bank, and have been in it since it was established.

"Of what did the circulation of Belfast consist previous to that period?—Mostly guineas.

"Did those guineas disappear?—The guineas disappeared after the banks were established; they went out of circulation. There was another cause, a very high premium paid on guineas for sending abroad, in consequence of the exchange, and paying the troops, and they were mostly bought up at a premium.

"Was there any inconvenience experienced in the trade of Belfast during the time that the circulation consisted chiefly of gold?—The chief inconvenience was, I think, that the persons who wanted to have bills discounted at that time, were obliged to pay a very high premium for it. There was a discount office, and that discount office charged a discount and a premium on the bills, which made it amount to about nine per cent. to the persons requiring discount.

"Previous to the time when there was a discount on gold, was there

any inconvenience felt in the circulation?—Yes; I think it has happened that a person who has wanted a 300*l.* or a 400*l.* bill discounted on London, was obliged to go to a moneyed man in Belfast, and give him this bill; and this person probably might not have all the money at the time. He would say, I will give you 100*l.*, and will give you the remainder when I can get it. And it might be a week probably before the remainder was got. Occasionally sometimes they got it immediately. In fact there did not appear to be sufficient capital.

"Your notes are payable in Dublin only?—Yes, in Dublin: our notes were so printed, and we have made no alteration.

"How does your notes run?—I promise to pay the bearer on demand so much, at the house of Solomon Watson, Esq., in Sackville Street, Dublin.

"Have you any objection to stating what has been the amount of your circulation?—I have no objection to answer that question. I took it from our books before I left home, that I might be able to answer correctly.

	£		£
In 1811, the average of the year . . .	249,000	In 1819, the average of the year . . .	412,000
1812	354,000	1820	300,000
1813	396,000	1821	310,000
1814	378,000	1822	268,000
1815	313,000	1823	297,000
1816	239,000	1824	300,000
1817	271,000	1825	351,000
1818	389,000		

"How many agents do you employ?—I think seven or eight. We have an agent in Derry, one in Armagh, one in Ballymena, one in Newry, one in Coleraine, one in Dundalk, and an agent in Banbridge. These are all we have at present."

In this year the capital of the Bank of Ireland was increased, by 48 Geo. III. c. 103, from 1,500,000*l.* to 2,500,000*l.* Two-thirds of the new stock to be subscribed by the proprietors of the old. The bank empowered to borrow money to the extent of its capital. The charter was now extended until the end of twelve months' notice, to be given after the first day of January, 1837, and the repayment of all sums due to the bank by the government. The bank were to manage the public debt, and pay the dividends without expense to the government.

1810. The following information was given to the Bullion

Committee by E. Wakefield, Esq., respecting the circulation of Ireland:—

"I will endeavour to give you a list of the items that compose the circulating medium of the sister island, and the means by which transfers are effected without the intervention of that medium.

1. "*Issues of the National Bank*—which are partly paper, and partly tokens. The paper consists of notes payable to bearer on demand, and notes payable to order seven days after sight. The tokens are Spanish dollars stamped as tokens, for six shillings Irish currency, and amount to 200,000*l.* This last issue is partly a credit medium, for the dollar is worth only about 4*s.* 3*d.* or 4*s.* 6*d.*, and the difference between this intrinsic value and the sum of six shillings, at which they are issued, is completely a credit given by the public, and rests on the same foundation as an issue of paper.

2. "*Issues of private bankers.*—The banking-houses in Dublin, except those of Messrs. Latouche and Co., and Sir Thomas Newcomen and Co., issue notes payable to bearer as well as the country banks.

"The issues of private bankers are notes payable in Bank of Ireland notes, and not in specie.

"Private bankers' post bills are likewise made payable in Bank of Ireland notes; and as they require acceptance ten days before they are payable, they are kept in a forced circulation.

"The Lurgan, Londonderry, and two Belfast banks, make their notes payable in Dublin as well as at their own house: but nearly all the other private bankers make their notes only payable at the place whence they are issued.

"The notes of both the Bank of Ireland and of private bankers, are now for one or more pounds, not for a guinea, or 1*l.* 2*s.* 9*d.* currency, as they were formerly.

"All private bankers in Ireland are compelled by the 29 Geo. II. c. 16, to take out a licence, and prohibited from trading, which has thrown the banking trade into the hands of a wealthier class of persons than it would otherwise have been in. The prohibition against bankers trading, has deprived them of some of their means of forcing paper into circulation; but this obstacle has been more than overcome by the increased activity and use of those left.

"Private bankers have for a long time regularly collected the specie in circulation, but on no occasion voluntarily issued it, which has caused guineas to disappear from three provinces, and heightens the premium on them. The recent establishment of two banks at Belfast, threatens the same consequences in the north.

"It is common for private bankers to pay a commission to butter-factors, corn-buyers, and other dealers, on the amount of the paper they can issue. Though the paymasters of regiments are prohibited from this practice, and are supplied with the Bank of Ireland notes, yet

these notes are exchanged for smaller ones by the country bankers, and are thus withdrawn from circulation, and replaced by private paper.

"At Ballinasloe fair, all payments are made in bills on Dublin, at sixty-one days' date; and although the business done there is immense, the Galway bankers attend, and are ready to exchange these bills at par for their own notes.

"The Bank of Ireland is restrained by their charter from taking a larger discount than five per cent.; and those Dublin bankers who issue paper discount at that rate in their own notes, but the two banking-houses which do not issue paper, charge the legal rate of discount, which is six per cent.

"Under this head of issues of private banks, I wish to add that there is in Ireland a circulation of forged notes, of which no one here can form an idea; and the amount of which it is impossible to guess, although it is known to be enormous; indeed, so large as to deserve a place in every calculation of the amount of the circulating medium of the sister island.

"In the city and neighbourhood of Dublin, Bank of Ireland, and Dublin private bankers' paper constitutes the circulating medium.

"Kilkenny, Wexford, Waterford, Youghall, Clonmel, Fermoy, Cork, Mallow, Limerick, Ennis, Galway, and Tuam, have private bankers, whose paper is the prevailing, and in most instances, the entire circulating medium of their respective neighbourhoods. Each of these private banks have by them some quantity of Bank of Ireland paper, which, however, they never issue when they can avoid doing so. They all draw bills upon London at thirty-one days, which is a premium of one half per cent.: and one cause of their only paying their notes at their own banks, is to secure this profit.

3. "*Promissory notes*, called *silver notes*, are in circulation in the counties of Kerry, Limerick, Clare, and Cork, in direct violation of the law which prohibits the issue of notes for small sums. But great art is used to evade the penalties to which the issuers of such notes are liable. They are drawn as if they were the weigh-bills of corn buyers, as I. O. U., or bearing a date previous to the act. The amount of this species of paper is inconsiderable.

4. "*Bills of exchange* greatly aid transfers, and supply the place of circulating medium, especially those drawn on Dublin, which pass from hand to hand till they fall due.

5. "*Tally payments.*—There is a considerable transfer of property and payment for labour in various parts of Ireland, by tally between landlords and their tenants; the work of the latter being set against the rent and property of the former.

6. "*Guineas.*—It is a general opinion that guineas are hoarded; and there are some facts with which I am acquainted that seems to support

it. I have been assured by several, that they always lay by every guinea they receive, looking upon them as a rarity; and I am sure that in consequence many affix an ideal value to coin. One person told me he had borrowed bank notes at an interest of twelve per cent., with which to pay his rent, though he had gold by him which he would not part with.

"In that part of Ireland in which guineas still circulate, two prices are put on every article offered for sale; and it is common to buy at the coin price, and pay in paper, when the buyer pays in addition what is called the discount, which however is the premium of guineas.

"The quantity of gold in the north of Ireland has been much overrated. I have known the agents of absentee proprietors supply a shopkeeper with a few guineas to sell to the tenants at a premium, on the day that their rents are payable, which on the rents being paid, were again given to the shopkeeper to resell; and this operation to the profit of the agents and the shopkeeper, and to the delusion of the public, has been repeated with the same guineas several times in one day. I have not heard of this trick any where but in the north, where it is supposed guineas circulate, and the agents pretend that their employers insist on being paid their rents in gold.

7. "*Spanish dollars* are imported by individuals from Liverpool chiefly, and circulate without a stamp at an uncertain value, according to their weight and the market price of silver.

8. "*Bank tokens* are issued by the Treasury to the Bank of Ireland, who issue them to the public: they are of silver, and are for five-pence, ten-pence, and thirty-pence. The act which makes it an offence to coin them, directs them to be received at the exchequer, and thus secures their value to the public. They were stamped bank tokens, because the bank had previously issued dollars so stamped, and it was therefore deemed a less innovation. They were issued for the above sums, both as forming change for the stamped dollar, and to confine their circulation to Ireland. These tokens amount to 955,000*l.* British. They are not current by the king's proclamation like mint coin.

9. "*Copper coin* consists of pence and halfpence. There was a new coinage of 600 tons since the year 1804. Thirteen of these pence represent a British shilling.

10. "*English mint silver* is seldom seen, and not current, except in Cork and its neighbourhood, which I apprehend arises from the frequent communication with English shipping.

11. "In the King's county, Lord Charleville has issued a piece of copper about the size and weight of a penny piece, promising the payment of 13*d.* every Tuesday in Tullamore, which is the currency of small payments in that neighbourhood."

1812. In this year Lord Stanhope's Act, which had been

passed the preceding year, to prevent Bank of England notes being taken at less than their nominal value, was extended to Bank of Ireland notes in Ireland. The act of 1812 was to continue in force until three months after the next session of Parliament; but in 1814, it was continued during the existence of the Bank Restriction Act.

1821. The capital of the Bank of Ireland increased from 2,500,000*l.* to 3,000,000*l.* The additional sum of 500,000*l.* was taken from the bank's surplus fund, and lent to the government at four per cent., to be repaid by the 1st January, 1838. The increased capital was divided among the proprietors, at the rate of 20*l.* for every 100*l.* they possessed. In consideration of this increase of capital, the bank consented to a clause in this Act, whereby persons in partnership residing fifty miles from Dublin, might carry on the business of banking, although such partnership might consist of more than six partners; but that such partnership should possess no other privilege than being allowed to sue and be sued in the name of a public officer, should Parliament hereafter think fit to grant such a power. This privilege was of little practical use, for, according to the construction put upon the Act, it required that all the partners in these banks should reside in Ireland.

1824. The Hibernian Joint-stock Bank was formed in this year. The following account of the origin of this bank is given by John Robinson Pim, Esq., of Dublin:—

"A number of Roman Catholic gentlemen finding they were continued to be excluded from the direction of the Bank of Ireland, met together, and obtained the signatures, not only of Roman Catholics, but of a number of others, amongst the rest myself, to the establishment of this bank; many merchants signed it, as considering that by having an opposition bank in such a city as Dublin, advantages would frequently be derived from it, and not altogether looking to the emolument which they should receive as subscribers to the bank, but looking at it as citizens generally; I myself never calculated on a very great deal of profit from it, except at a very remote period. Some of the individuals who undertook it came over to London, and they had expected to obtain the power of issuing notes, but they met with so much opposition from the Bank of Ireland, that the clauses which they intended to enable them to issue notes were expunged in the committee; but I state this only from hearsay.

"Does the Hibernian Bank hold out any inducement to the tradesmen of Dublin to make a deposit with them more than they would experience from the Bank of Ireland?—Nothing more; but probably party motives may induce many individuals to lodge their money with the Hibernian Bank, in preference to the Bank of Ireland."

Its nominal capital is 1,000,000*l.*, divided into 10,000 shares of 100*l.* each. 25*l.* per cent. has been paid upon each share, so that the money actually advanced amounts to 250,000*l.* This bank receives deposits, but grants no interest on them, as it is not deemed respectable in Dublin for a banker to do so. It cannot issue notes, nor establish branches. It does not grant cash-credits, but it discounts bills at five per cent., in doing which it issues gold and Bank of Ireland notes. The London agents for this company are Messrs. H. and J. Johnston and Co., 9, Scot's Yard, Bush Lane.

In the same year this company obtained an Act, entitled, "An Act to enable the Hibernian Joint-stock Company, for the purpose of purchasing and selling annuities, and all public and other securities, real and personal, in Ireland, and to advance money and make loans thereof, on the security of such real and personal security, at legal interest, and on the security of merchandize and manufactured goods, to sue and be sued in the name of the governor or secretary for the time being." *

The preamble states, that—

"Whereas, the commerce and manufactures and agriculture of Ireland have long laboured under great disadvantage, arising from the want of due command of capital; and that merchants and manufacturers have no means of procuring temporary advances of money on a deposit of their goods, when a slackness of demand arises; and whereas several persons have agreed to form themselves into a company, or partnership, under the name of the 'Hibernian Joint-stock Company,' and have subscribed or raised considerable sums of money in order to purchase and sell annuities and all public and other securities, real and personal, in Ireland; or to make loans and advances of money on the security thereof, and on the security of merchandize and manufactured goods, at legal interest, and to receive lodgments of money or deposits thereof; and great public benefit is expected to be derived to the trade, manufac-

* Anno quinto Georgii IV. Regis, cap. 159.

tures, and agriculture of Ireland from the formation of such a company, or partnership; and whereas difficulties may arise from time to time," &c.

It is enacted, that this company may sue and be sued in the name of their governor or secretary. A memorial of the names of the governor, secretary, and members, and of the transfer of shares, to be enrolled in Chancery; and no actions to be brought by the company, under the authority of this Act, until such memorial shall have been enrolled. Execution upon any judgment against the governor or secretary may be issued against any of the members, who are to be reimbursed their expenses by the company.

"Provided always, and be it further enacted, that it shall not be lawful for the said company, or any person or persons on behalf of the said company, in any manner to stipulate, contract, or agree with any person or persons to limit or restrict the liability of the members of the said company, or any of them, or to make any especial agreement in relation to the extent of the liability of the said company or any of them.

"Provided always, and be it further enacted, that the powers and provisions of this Act shall not take effect until the members of the said company shall have subscribed and engaged to pay by a contract, binding the subscribers, their heirs, executors, and administrators for payment of the money so subscribed (according to the amount of their respective subscriptions) to the amount of four-fifths of the capital of one million so intended to be created, nor until the sum of two hundred and fifty thousand pounds, part of such sum so to be subscribed, shall have been paid into the Bank of Ireland, or invested in stock of the Governor and Company of the Banks of England or Ireland, or government securities, in the name of the governors and directors of the said intended Hibernian Joint-stock Company, for the benefit and use of the said company."

In this year an Act was passed (5 Geo. IV. c. 73) "to relieve bankers in Ireland from certain restraints imposed by the provisions of the 29 Geo. II., and to render all and each of the members of certain copartnerships of bankers, which may be established, liable to the engagements of such copartnerships, and to enable such copartnerships to sue and be sued in the name of their public officer."

Those clauses in the former Act that required the names of all the partners to be subscribed to the notes, and which prohibited bankers being traders are by this Act repealed.

Banking partnerships exceeding six persons, and carrying on business at any place beyond fifty miles from Dublin, shall be registered at the Stamp Office, Dublin; and also the names of the public officers, in whose names such partnerships sue and are sued. The names of those public officers were also required to be subscribed to all notes and receipts issued by the company. Judgments against the public officers to operate as judgment against the partnership, and execution upon judgment may be issued against any member of the society, and the public officer to be saved harmless.

Under this Act was established the Northern Banking Company. This was originally a private bank at Belfast, and called the Northern Bank. But after the passing of this Act it was formed into a joint-stock company under its present title. The capital is 500,000*l.*, in 5,000 shares of 100*l.* each.

SECTION III.

The History of Banking in Ireland from the establishment of the Provincial Bank of Ireland to the present time.

Public banks may be divided into three classes:—first, Chartered Banks, those which have received a charter from the Crown;—secondly, Joint-stock Banks, formed under the common law; and thirdly, Joint-stock Banks, formed under the statute law.

The common law of England allows any number of persons to form themselves into a partnership to carry on banking. At the same time, it presents this inconvenience in the formation of such partnerships—in all actions at law, it is necessary to state the names of all the individuals who compose the company. Another inconvenience of partnerships formed under the common law, is, that all the partners are answerable for the debts of the company, to the full extent of their property, not only while they are partners, but after they

have ceased to be partners, as far as regards any transactions that took place during the continuance of their partnership. The banks avoid these inconveniences in the first place by conducting their business in the names of trustees, in the same way as some of the insurance companies; and in the second place, by inserting a clause in the deed of settlement, that, in case the bank should lose one-third or one-fourth the amount of its paid-up capital, it shall immediately be dissolved.

The statutes 6 Geo. IV. c. 42, with reference to Ireland, and 7 Geo. IV. c. 46, with reference to England, not only repealed those Acts of Parliament which prohibited the formation of banking companies having more than six partners, but they also removed the inconveniences of the common law. It was enacted, that it should no longer be necessary, in legal actions, that the names of all the partners should be placed upon the record; but that the company should register at the Stamp Office the name of some one person, in whose name they wished to sue and be sued. Any party who had a disputed claim upon the company must sue this public officer, and when he had obtained a verdict in his favour, he might issue judgment against all the partners in the same way as though he had obtained a verdict against them all. And that he might have no difficulty in ascertaining who were or were not partners, it was required that the names of all the partners should be annually registered at the Stamp Office. The statute law also obviated the second inconvenience of the common law, by enacting that every partner, as soon as he had transferred his share, should be released from all liability as to the subsequent acts of the company, and at the end of three years he was no longer liable for any acts that took place even at the time he was a partner.

The Provincial Bank of Ireland was formed under the statute 6 Geo. IV. c. 42. Few banks have, in so short a time, advanced to so high a degree of prosperity. The circumstances of Ireland, at that period, were friendly to the growth of such an establishment. The recent abolition of the union duties, and the introduction of steamboats, had given a stimulus to the trade between the two countries, while nearly all

the banks in the south of Ireland had been swept as by a whirlwind from the face of the land. The operations of the bank were also facilitated by the assimilation of the currency, and the measures taken by the government and the Bank of Ireland, to prevent those fluctuations in the exchanges which had previously existed. But the prosperity of this bank must be attribued chiefly to the wisdom and prudence manifested in its constitution and in its subsequent government. The capital was raised chiefly in England, and London was consequently made the seat of government. The board of directors was composed of merchants and statesmen, and the latter were taken from the leading men of the two parties into which Ireland was then divided. The local governments of the respective branches in Ireland were composed of directors possessing local knowledge and influence, and of managers selected for their experience in banking, and the manager had a veto upon the decision of the board. An inspector was appointed to visit the branches, and to report to the London office.

At the same time the bank had considerable difficulties to contend against. Property in Ireland was considered insecure; political and religious feelings often interfered with matters of business; the habits of the people were not commercial; and the country had suffered so severely from private banking, that confidence was not easily acquired for a new company, the members and constitution of which were but imperfectly known. Before these difficulties had been completely overcome, the bank became involved in a competition with branches of the Bank of Ireland, and exposed to sudden demands for gold arising out of political events.

The Provincial Bank of Ireland was projected in the year 1824, but it was not until the autumn of 1825 that it began to open its branches in the principal provincial towns in Ireland.

1825. In this year was passed the "Act for the better regulation of copartnerships of certain bankers in Ireland." It was obtained by the directors of the Provincial Bank of Ireland, as the Acts previously granted did not furnish the

facilities which the Provincial Bank required for the beneficial exercise of its operations. It confirmed the permission granted by former Acts to establish Joint-stock banks at a greater distance than fifty miles from Dublin, and permitted persons resident in Great Britain to become shareholders in such banks. The banks were required to register at the Stamp Office in Dublin an account of the names of the firms, the several partners therein, and the public officers thereof. The partnerships shall sue and be sued in the name of their public officers. Parties obtaining judgments in Ireland may authorize the acknowledgment of like judgment in Great Britain; and, in like manner, parties obtaining judgment in Great Britain may proceed thereon in Ireland. Judgments against public officers shall operate against the society, and execution upon judgment may be issued against any member of the copartnership. All transfer of shares must be registered at the Stamp Office.

In this year, too, an Act of Parliament was passed to assimilate the currency of Ireland to that of England. It is entitled, "An Act to provide for the assimilation of the currency and moneys of account throughout the United Kingdom of Great Britain and Ireland." (6 George IV. c. 79.) The Act recites, that the pound sterling in Great Britain and Ireland respectively, is divided into twenty shillings, and the shilling into twelve-pence; but the silver coin which represents a shilling in Great Britain, is paid and accepted in Ireland for thirteen-pence, and the pound sterling of Great Britain is at the par of exchange, paid and accepted for one pound one shilling and eight-pence of the currency of Ireland, and that great complexity of accounts, and other inconveniences arise from the said difference of currencies. It then enacts, that the currency of Great Britain shall be the currency of the United Kingdom, and all receipts, payments, contracts, and dealings, shall be made in such currency. And all contracts, debts, &c., made or contracted previous to the commencement of this Act shall be carried into effect, and satisfied by payment in British currency of 12-13ths of the amount according to Irish currency. All

duties and public revenues, and all funds and public debts shall be estimated in British currency, and the accounts thereof kept accordingly. After a day to be named by proclamation, British silver and gold coins shall be current in Ireland, at the same rate of pence as in Great Britain. On the like proclamation, Irish copper coin shall be brought into the Bank of Ireland, and exchanged there for British copper coin, at the rate of twelve-pence British for thirteen-pence Irish, and the Irish copper coin shall cease to circulate. Bankers' notes shall be made payable in British currency. No notes payable in Irish currency shall be re-issued after the commencement of this Act, under a penalty of fifty pounds for each offence. Bankers may deliver into the Stamp Office re-issuable notes payable in Irish currency, and receive in lieu thereof new stamps to the whole amount of the stamps delivered up, if dated within one year previous, or three-fourths if within two years, and one-half if within three years. This Act came into operation on the fifth day of January, 1826.

As it was intimated that the Bank of Ireland would refuse to exchange notes with the Provincial Bank, and demand payment in gold, the Provincial Bank protested one of the notes of the Bank of Ireland, with a view of taking legal proceedings to compel that bank to pay their notes in gold at the branches. An arrangement subsequently took place, and the branches of these two banks now exchange their notes with each other, and pay the difference by an order at sight upon Dublin. The following statements of this transaction are given by Arthur Guiness, Esq., a director of the Bank of Ireland, and Pierce Mahony, Esq., the solicitor of the Provincial Bank:—

"What induced the alteration to be made in the body of the notes of the Bank of Ireland, making them particularly payable in Dublin, instead of, as had been the case formerly, generally payable?—I believe the principal inducement was a report that measures were about to be adopted to force the Bank of Ireland to pay the amount of their notes in gold at any given point, where they had an agent, and this report was substantiated by an occurrence that took place at Clonmel. A person, who called himself an agent of the Provincial Bank, demanded gold in

payment for a note. Our agent stated, that if asked as a favour he would accommodate him with it, as he would anybody else, but if demanded as a matter of right, he could not do it; upon which the note was noted for non-payment, and the bank understood that ulterior proceedings were to be taken; they therefore took the opinion of some of the first law authorities in Ireland upon the subject, who agreed that the Bank of Ireland were not liable to pay their notes in gold, except at the parent establishment in Dublin, and it was in consequence of those proceedings that the Bank of Ireland introduced the words 'in Dublin' into their notes: it was done for two purposes, one was, to guard against any attempt such as I have alluded to; and the other was, that the public might take those notes, with fair warning, that they could not have gold for them as a matter of right, but at College Green."—(*Commons*, 242.—*Guiness.*)

"Were you one of the persons who tried the question with the Bank of Ireland, whether they conceived themselves bound to pay in gold at their branches?—Yes; at Clonmel, in August last, the local directors informed the deputation that the Bank of Ireland agent there had intimated that he would demand gold from the Provincial Bank, and that he would not pay gold to them; and to try the question, it was agreed that we should make a demand for gold, and I was the person that did demand from Mr. Scott, the agent, gold for three notes of 100*l.* each. At that time the notes of the Bank of Ireland were payable *generally.* I have here the protest, which is dated the 17th of August, 1825, and the answer given by Mr. Scott to the notary on demand, as set out in it. It is this, 'that he had no directions from the Bank of Ireland to pay in gold, and that he had not so much gold in the house:' this was on a demand for 100*l.* I did hear that it was stated to this committee that the answer given to me on that occasion was, that I would get it if I took it as a favour; such was not the fact. I told Mr. Scott the purpose for which I asked it, and that I would take any answer that he thought fit, and he told me he had no gold at all.

"Have you tried the question?—No; the Bank of Ireland, and the Provincial Bank of Ireland, subsequently agreed to take each other's paper, and pay the balances on the exchange by drafts on Dublin, at sight, and it became unnecessary to do so as far as the Provincial Bank was concerned."—(*Commons*, 255.—*Mahony.*)

1826. In consequence of the panic that occurred in December, 1825, an Act of Parliament was passed to abolish notes under 5*l.* after a certain time in England. It was proposed to extend this Act to Ireland and Scotland. The question was, however, referred to committees of the two Houses of Parliament, who recommended that the measure should be postponed. During the discussion on this measure,

the directors of the Provincial Bank of Ireland presented the following memorial to the government:—

"Unto the Right Honourable the Earl of Liverpool, and to the Chancellor of the Exchequer.

"The Memorial of the Directors of the Provincial Bank of Ireland,

"Sheweth,

"That the society or copartnership denominated the Provincial Bank of Ireland, was established by deed of settlement, of date 1st August, 1825, under the authority of an Act, 6 Geo. IV. c. 42, 10th June 1825, passed in the last sessions of Parliament, intituled, 'An Act for the better regulation of copartnerships of certain bankers in Ireland;' in the preamble to which it is stated to be 'expedient to make further provision for the regulation of such societies and copartnerships, *and to encourage the further introduction of British capital into banking establishments in Ireland.*'

"That under the encouragement thus held out by the wise and liberal policy of the legislature, a capital of two millions, divided into twenty thousand shares, was subscribed by the shareholders of this society or copartnership chiefly in London.

"That the names of the shareholders have been duly registered at the Stamp Office in Dublin, and amount in number nearly to one thousand, composed almost entirely of persons of wealth and respectability; and that the security to the public for the obligations of the Provincial Bank of Ireland, whether arising from the issue of notes or from deposits, is thus of the most ample and satisfactory nature.

"That your memorialists on the faith of the continuance of the existing laws for regulating the circulation of bank notes in Ireland, have, at a very great expense, provided the means of supplying the population of that country with a circulating medium, founded on the soundest principles of banking, which have hitherto been scarcely known or acted upon in that part of the kingdom.

"That the distinguishing features of the system adopted by the memorialists, are as follow:—

"1. The establishment of branches in every principal town throughout Ireland, at a greater distance than fifty miles from Dublin, from the space within which circle your memorialists are excluded by the existing privileges of the Bank of Ireland.

"2. The notes of the Provincial Bank *are all payable on demand at the branches where they are respectively issued, and convertible into gold there, at the will of the holders, differing in this respect from the notes of the Bank of Ireland, which are convertible into gold at Dublin only.*

"3. The issue of notes by the Provincial Bank are made only on securities founded on real transactions, arising out of the industry of the people in the pursuit of commerce and agriculture; and the rate of

interest which it charges to those dealing with it is under that which the law allows.

"4. The Provincial Bank allows interest at the rate of two per cent. on money deposited, a practice but partially known in the north of Ireland, and altogether new in by far the greater part of the country.

"That on these principles your memorialists conceive the currency of Ireland will, in so far as depends on them, be preserved in a sound and healthy state; and that whilst the necessary stimulus to trade and agriculture, of which the want has been so much felt in Ireland, is thus supplied by the '*introduction of British capital into this banking establishment,*' all danger of excess of its paper circulation is guarded against, first, by its convertibility into gold at so many places; secondly, by the inducement which the interest allowed on deposits holds out to every one to return to the bank all surplus money not wanted for immediate purposes; thirdly, by the exchange of notes with other banks, which, according to the custom prevalent in Scotland, is regularly made, and which is in fact more frequently made by your memorialists than is done in Scotland, as it takes place every day; and lastly, by the effect on the exchange with Britain, and consequent demand for gold which would instantly be produced by any such excess, this last check being one of instant operation in the case of your memoralists, through whose establishments a considerable part of the business of rent and commercial remittances is now carried on.

"That the system thus laid down has been commenced, and has for the last six months been in actual operation in Ireland, with every appearance of success which could have been anticipated either by the legislature in enacting the law under which this banking society has been formed, or by the shareholders in raising its capital.

"That of the branches intended to be established by your memorialists, *five have been already opened, viz., Cork, Limerick, Clonmel, Londonderry, and Sligo; and that nine more are in progress, houses having been engaged, officers appointed, notes prepared, and other arrangements made for commencing business without delay.*

"That 300,000*l.* of the capital stock of the society has been already called up, and that intimation has been given to the shareholders that further calls will be made progressively, as the branches come into operation.

"That when the aforesaid Act, authorizing this and similar societies to be formed was passed, it must have been obvious that the intentions of the legislature could not possibly be carried into effect, unless the shareholders of such societies or copartnerships were to be permitted to derive the fair and legitimate profits which belong to banking.

"That the fair profits of banking, when conducted by a public company, and on the liberal principles which your memorialists have adopted, arise in a considerable degree from the circulation of notes, *and that*

without such profit the expenses of conducting their business, unless they should happen to possess exclusive privileges, would necessarily be so great as to oblige them to relinquish such undertakings.

"That it is a well-known fact, which the experience of your memorialists since the business of the Provincial Bank was commenced most amply confirms, that two-thirds of the circulation of notes in Ireland consist in notes of one pound and other denominations under five pounds value, and of these much the greater part are notes of one pound only.

"That this circulation of small notes necessarily arises from the peculiarities which attend four of the chief branches of industry in Ireland; viz., the linen manufacture, the raising of corn, the production of butter, and rearing of pigs.

"That although each of these branches is in the aggregate of very considerable magnitude, yet from the very great number of persons engaged in them, the produce which one individual brings to market is so very small, that without a circulating medium adapted to the circumstances, they could not be carried on.

"That from the facts above stated, it is of the utmost importance to Ireland that the merchants and traders who deal in its produce should be supplied with that species of circulating medium which is adapted to the wants of the people, and which can only be supplied under proper regulation by societies or copartnerships, such as your memorialists represent.

"That notwithstanding the state of things here mentioned, which can be proved to the satisfaction of the legislature, if need be, the memorialists are given to understand that the measure which is now before parliament for restraining the issue of notes under five pounds in England, is at no great distance of time to be extended both to Scotland and Ireland; and if the memorialists are rightly informed, it is the intention of government to propose that its operation in Ireland shall take effect sooner than in Scotland.

"That in these circumstances, your memorialists feel it to be their duty to represent in the most earnest manner to his Majesty's government, the great hardship, if not injustice, with which the proposed measure will press against the Provincial Bank of Ireland, which has been so recently established under the sanction of the legislature, given expressly for the benefit of Ireland, by encouraging the introduction of British capital into that country, and which, without such sanction and encouragement, never would have been established; for if this measure be carried into effect, the Provincial Bank must instantly be deprived of any sufficient means of reimbursing itself for the heavy expense to which it has been subject in preparing that very relief to Ireland which it was the object of parliament to administer, and the country must in consequence be denied the advantages which would be conferred on it by its permanent establishment; and should the paper of the Provincial

Bank be withdrawn, a monopoly would be given to that of the Bank of Ireland, which, though issued locally at the branches of that bank, is convertible at Dublin only.

"That this measure is altogether uncalled for in Ireland, where there is not the smallest complaint of an excessive issue of paper, nor any overtrading, or inordinate spirit of speculation. It is not only uncalled for, but universally deprecated, as being pregnant with the most serious mischief, and calculated to crush the rising spirit of industry in that country, by taking from the manufacturers and others the means of employing the population, and so to produce ruin to persons engaged in trade and agriculture, and amongst the lower classes discontent, disorder, and rebellion.

"That your memorialists therefore trust, that when the case of individual hardship in which the society whom your memorialists represent are placed, in consequence of their following up the views of the legislature in promoting the welfare of Ireland, and still more when the ruinous effects which would spread so widely amongst the already distressed population of that country have been fairly pointed out, his Majesty's ministers will not persist in introducing into parliament a measure fatal to Ireland, and calculated to suspend all the benefit now beginning to be felt, from the liberal policy of the legislature in improving the banking system in that part of the united empire.

"Which is submitted,

London, March 2, 1826. "E. Fletcher, *Chairman.*"

THE REPORT OF THE SELECT COMMITTEE OF THE HOUSE OF COMMONS,

IN REFERENCE TO THE CIRCULATION OF PROMISSORY NOTES IN IRELAND.

"With respect to the circulation of Ireland, the inquiries of your committee have been less extensive than those which they have instituted with respect to Scotland.

"The first law in Ireland which restrained the negotiation of promissory notes, was an Act passed in the Irish Parliament in the year 1799.

"The preamble recites, that various notes, bills of exchange, and drafts for money, have been for some time past circulated in lieu of cash, to the great prejudice of trade and public credit; and that many of such notes made payable under certain terms, with which the poorer classes of manufacturers and others cannot comply, unless by submitting to great extortion and abuse. It adds, that the issue of such notes has very much tended to increase the pernicious crime of forgery; and the Act proceeds to apply to notes between the value of five pounds and twenty shillings, similar restrictions to those which had been applied to such notes issued in England by the Act which passed in the year 1777.

It permits, however, during the suspension of cash payments by the Bank of Ireland, the issue of bank post bills, bills of exchange, and drafts under certain regulations, for any sums not less than three guineas. This Act did not extend to the Bank of Ireland.

"In 1805, this and some other Acts which had passed in the interim, relating to the issue of small notes, were repealed; and notes under twenty shillings, which had been previously admitted under certain regulations by the Act of 1799, were declared void.

"There is at present no law in force imposing any limitation to the period for which notes for a sum not less than twenty shillings may be issued in Ireland.

"A tolerably correct estimate of the amount of promissory notes, above and below five pounds, circulating in Ireland, may be formed from the subjoined returns made by the Bank of Ireland, and by other banks at present established in that country.

"Bank of Ireland notes.—An account of the average amount of the Bank of Ireland notes of five pounds and upwards (including bank post bills) for the years 1820, 1821, 1822, 1823, 1824, and 1825.

(Irish Currency.)

"Notes and post bills of five pounds and upwards, £3,646,660. 19. 6.

"An account of the average amount of the Bank of Ireland notes under the value of five pounds (including bank post bills) for the years 1820, 1821, 1822, 1823, 1824, and 1825.

(Irish Currency.)

"Notes and post bills under the value of five pounds, £1,643,828. 0. 5.

"It appears from the evidence that a practice prevails in Ireland of issuing notes for the payment of sums between one and two pounds, for three guineas, and other fractional sums.

"Your committee see no public advantage arising out of this practice: and they are of opinion that it ought to be discontinued, as it tends to dispense with the silver coin, and practically to exclude it from circulation.

"Your committee hesitate in the present imperfect state of their information, to pronounce a decisive opinion upon the general measures which it may be fitting to adopt with respect to the paper currency of Ireland.

"Although they are inclined to think that it would not be advisable to take any immediate step for the purpose of preventing the issue of small notes in Ireland, their impression undoubtedly is, that a metallic currency ought ultimately to be the basis of the circulation in that country.

"It will probably be deemed advisable to fix a definite, though not an early period, at which the circulation in Ireland of all notes below five pounds shall cease; and it is deserving of consideration, whether measures might not be adopted in the interim for the purpose of

insuring such a final result by gradual though cautious advances towards it."

A SUMMARY OF THE EVIDENCE

GIVEN BEFORE THE COMMITTEES OF THE TWO HOUSES OF PARLIAMENT, AS TO THE EFFECT OF ABOLISHING THE SMALL NOTE CIRCULATION IN IRELAND.

1. Small currency is necessary to carry on the commercial transactions of the country.

JOHN ACHESON SMYTH, Esq., *Agent for the Belfast Bank at Londonderry.*

"In Lancashire, I believe all the raw material is bought in large parcels, and by bills. In Ireland, the raw material is all bought in small parcels, and all in small notes. In Lancashire, there is only cash wanted to pay the workmen; but we want it both to pay the workmen and to buy the raw material. The provision and grain that we send to England are also bought in small notes, and we are reimbursed by drawing bills for our shipments."—*Commons' Report, p.* 77.

PIERCE MAHONY, Esq., *Solicitor to the Provincial Bank of Ireland.*

"If the banks were prevented issuing notes under the amount of 5*l.*, would any inconveniences arise in conducting the trade of the south of Ireland?—The trade of Ireland generally, and especially in the south of Ireland, would be greatly inconvenienced, and the growth of manufacturers would be decidedly checked, if not destroyed, by such a measure. From the great subdivision of land in Ireland, and particularly in the south and west (where the population is almost exclusively agricultural), the produce is disposed of in small portions scarcely ever representing 5*l.*, and almost universally under that amount. I am of opinion that the withdrawal of all notes under that amount would have the effect of curtailing the accommodation the banks now afford to the public to a ruinous extent; and that the trade of the country under such circumstances would not afford profitable employment for banking capital to any extent; and, therefore, I should anticipate the withdrawal of such establishments, except perhaps at Cork and Belfast. In the south and west of Ireland, from the nature of the provision and corn trade, the chief demand for notes or for gold commences in October, and continues until March, when that trade is nearly over for the season. From March until October the butter trade is almost the only one in the south and west of Ireland; and as that trade would not employ all the capital that is required in the winter season, the effect would be, if sovereigns were substituted for small notes, that the extra supply required for the corn, beef, and pork trade, must remain idle in the banker's chest, or be remitted at great risk and expense for employment elsewhere during the summer and autumn.

"Do you think if a metallic circulation was adopted that there would

be a difficulty in maintaining that metallic circulation?—I do; because the trade in the south and west of Ireland is periodical; the remittances from those districts of Ireland would force the gold away at certain periods, and it must be returned at others with considerable expense to meet the trade of the country."—*Commons' Report, pp.* 250, 251.

2. A gold currency would be more inconvenient than notes, and would not be so well liked by the people.

LEONARD DOBBIN, Esq.,* *Agent for the Northern Banking Company of Belfast at Armagh.*

"Do the people of the north of Ireland manifest any wish for gold in preference to notes, or for notes in preference to gold?—They decidedly prefer notes, and the weavers have refused to carry gold out of the market lately.

"Can you assign any reason for this preference?—There are many reasons that I could assign. The bank notes are now the established currency; the people are perfectly acquainted with them. If a man should lose notes, or a house be robbed, or if there is a forgery, it would be much better for them to trace notes than it would gold. I have often assisted poor people in tracing notes that were robbed, and forged notes, whereas the gold could not be traced so readily. Another reason I would give is this, guineas became light, and were troublesome to the people. When standing beam, there was a shilling charged, and when lighter than standing beam, two shillings and sixpence; and when gold was scarce, and bank notes not a legal tender, the land agents refused to take anything but gold, the tenants were obliged to pay from one shilling to four shillings on a guinea discount. Some agents would only take gold."—*Commons' Report, p.* 243.

J. A. SMYTH, Esq., *Linen Merchant, and Agent for the Belfast Bank at Londonderry.*

"I am in the habit of employing my linen buyers to go to the country markets, and I must supply them with the week's money before they start, perhaps five hundred or a thousand pounds; they have to go through the interior of the country, and do not return for a week. They make their purchases all in small quantities, and it is more convenient for them to carry notes than gold."—*Lords' Report, p.* 7.

ARTHUR GUINESS, Esq., *Director of the Bank of Ireland.*

"I conceive that with the persons who handle the circulation of the country, there is a decided preference in favour of small notes over cash in every respect. I speak from mine own experience; for I

* This gentleman was afterwards agent for the Bank of Ireland at Armagh and M.P. for that place.

remember perfectly well, before the restriction upon cash payments, when gold was a great inconvenience in trade. I speak of those who handle the currency of the country, among whom I think the preference is in favour of the small notes as more convenient, more portable, and less liable to counterfeit. I conceive these to form the general ground of preference."—*Commons' Report, p.* 237.

3. The profits of the banking establishments would be so much diminished that they could not extend the same accommodation to the agricultural and commercial classes.

W. P. Lunnel, Esq., *Director of the Bank of Ireland.*

"If the notes under 5*l.* were prohibited, would the profits of the Bank of Ireland be materially affected by such prohibition?—I should expect that they would suffer: they must sacrifice a certain profit.

"Have you considered to what extent the profits of other bankers would be affected?—I should expect that the principal circulation of the country bankers is in small notes, and therefore in that proportion they would suffer."—*Lords' Report, p.* 108.

John Holmes Houston, Esq., *Banker at Belfast.*

"If all the notes under 5*l.* were prohibited to be issued, would it be worth while in your opinion to keep the establishment of a bank in Belfast?—I do not think it would, except by carrying it on in the same manner as it formerly was—to keep a discount office charging a commission on discounting bills, because 5*l.* notes would not circulate; then our circulation would be so trifling it would not answer."—*Lords' Report, p.* 35.

H. A. Douglas, Esq., *Director of the Provincial Bank of Ireland.*

"I consider the cash-account system and the one-pound circulation so connected, that if the notes are withdrawn, it is understood that our establishment will not grant any further cash-credits.—The business which we carry on, even if we charged a higher rate of interest, or a commission, would not be of sufficient magnitude to repay us for the expense of our establishment, independent of our notes.—If the issue of small notes be withdrawn, then we cannot afford to allow interest on deposits."—*Lords' Report, pp.* 24, 26, 27.

4. The abolition of small notes would prevent the investment of British capital in the present banking establishments.

T. S. Rice, Esq., M.P.,* *and Director of the Provincial Bank of Ireland.*

"Is it your opinion, that if all notes under 5*l.* were abolished, a considerable inconvenience would arise in the ordinary traffic in Ireland?—

* Now Lord Monteagle.

I conceive that it would. I conceive that the first effect of the extinction of all notes below 5*l.* would be a much more considerable diminution of the general mass of the circulating medium in Ireland than in England.

"I fear extremely that if anything were to occur which materially diminished the profits of our establishment, it would have the effect of depriving us of one of the chief benefits of the establishment, namely, the support and control of British capitalists, and conducting the bank by British merchants, and upon British commercial principles. I conceive a rate of profit, rather higher than the average rate of profits, is essential to induce persons so circumstanced to engage in such a business, more particularly when it is considered that there is no limitation of responsibility by the grant of charters."—*Lords' Report, pp.* 47, 51.

5. The gold currency would be sent out of the country, whenever it bore a premium in England.

HENRY H. HUNT, Esq., *Local Director of the Provincial Bank of Ireland, at Waterford.*

"What do you think would be the consequence of a law which prohibited the issue of notes below 5*l.*, both by the Bank of Ireland and by any other banking establishment in Ireland?—I should think it would be very hazardous indeed: I should very much apprehend that the gold circulation would at times be *withdrawn* in a very great degree *from the country,* whenever gold was wanted in London; for instance, A SMALL PREMIUM UPON A SOVEREIGN WOULD INDUCE A VAST QUANTITY OF THEM TO BE BROUGHT OUT OF IRELAND.

"Have you ever known instances of quantities of gold being brought over from Ireland to this country, and persons making a regular traffic of it?—I have."—*Commons' Report, pp.* 73, 74.

6. The proposed measure would cause general distress, and prevent the progress of enterprise.

JOHN ROBINSON PIM, Esq., *General Merchant in Dublin.*

"The very idea of curtailing the currency under five pounds would have a tendency to discourage all adventure in Ireland at present. I should not, for one, be careful of placing money in any kind of machinery till the effect was tried. I fancy it would reduce property very much in that country,—and sometimes fancies are almost as bad as reality."—*Lords' Report, p.* 19.

7. The proposed measure would be a violation of the charter of the Bank of Ireland.

ARTHUR GUINESS, Esq., *Director of the Bank of Ireland.*

"You are aware that an act of parliament passed in the twenty-first year of the late king, on the occasion of increasing the capital of the Bank of Ireland?—I am.

"The government, by that act of parliament, are bound to receive Bank of Ireland notes in payment of all sums of money, if offered, fractional parts of twenty shillings only being excepted?—They are.

"If, then, the government were to prevent you issuing notes under 5*l.*, would not the effect be the same as refusing to accept notes less than 5*l.* in payment?—The effect would be the same.

"Then to all intents and purposes it would be a breach of faith in one case as well as in the other?—I conceive it would."—*Report of the Select Committee of the House of Commons, p.* 240.

In this year the following memorial was presented to the Lords of the Treasury:—

"To the Right Honourable the Lords Commissioners of his Majesty's Treasury.

"The Memorial of the undersigned merchants, traders, and others, inhabitants of the City of Dublin and its vicinity,—

"Sheweth,

"That by the Act forming the Bank of Ireland, it is enacted, 'That no company or society exceeding six in number (except the Bank of Ireland) shall borrow, owe, or take up money, on their bills or notes, payable at demand, or at any less date than six months, from the borrowing thereof, under a penalty of three times the issue.'—(21 & 22 Geo. III., c. 14.)

"That in the year 1821 the above Act was modified, by the 1st and 2nd Geo. IV., c. 72, so far as to permit the establishment of banking companies exceeding six in number, at a distance of fifty miles from Dublin, under certain conditions therein mentioned.

"That in consequence of the ambiguity of the said Act, no companies were formed under it, nor until the year 1824, when an Act was passed to explain it, and carry its provisions into effect. That the above Act was repealed last session, and a further explanatory Act was passed, under which provincial banks have been established, at a distance of fifty miles from the city of Dublin, issuing notes payable at the place where issued.

"That the said Act only goes to the extent of permitting the establishment of banks issuing notes payable on demand fifty miles from Dublin, thereby leaving the city of Dublin, and a circuit of fifty miles, exposed to all the evils resulting from a monopoly in so important a matter.

"That although it is at present legal to establish such companies, the prohibition annexed of not issuing bills or notes payable on demand, or

at a less date than six months, renders the liberty of establishing such banks inoperative, as, without a power to issue notes payable on demand, no bank in Ireland can realize common interest for the capital embarked, and the sphere of its utility is bounded.

"That the liberty of issuing notes or bills payable at six months after date, is also rendered inoperative by the stamp acts in force, prohibiting the re-issue of such or any post bills, except those of the Bank of Ireland, when once discharged, the effect of which prohibition makes such an issue useless.

"That at different times there have been several failures of banking establishments in Dublin, which have, at the period at which they happened, and subsequent thereon, thrown the city into the greatest distress, and have often occasioned a serious defalcation in the public revenue.

"That under the present banking law there is no security to the public that weak banks may not be again established in Dublin, and a repetition of failures occur; more especially as the notes of private banks in Dublin have at all times shared a considerable portion of the circulating medium with that of the Bank of Ireland.

"Your memorialists therefore hope, that great benefits having been already rendered to Ireland by a partial permission to establish joint-stock banks, that your lordships will extend the measure by granting to Dublin the same privilege which has been already conferred upon the rest of the kingdom; and for that purpose that your lordships will take into consideration, on great public principles of policy, the expediency of entering into a new agreement or bargain with the Bank of Ireland, so as to permit the establishment of joint-stock banks in the city of Dublin, with adequate capital, and under such regulations for the security of the public, as to your lordships shall seem fit."

In this year (1826) the directors of the Provincial Bank of Ireland made their first Report to the Proprietors. It contains matters of considerable interest in the history of banking at that period, and is therefore given here in detail. It was as follows:—

"It being provided, by the deed of settlement, that a general meeting of proprietors of the Provincial Bank of Ireland shall be held on the third Thursday of May in each year, the directors have, in the discharge of their duty, called the proprietors together for the purpose of laying before them an account of their proceedings.

"From the recent commencement of the business in Ireland, the present report can do little more than detail the measures which have been taken to attain the important objects proposed in the formation of this society; and as many of the present proprietors may not be exactly acquainted with the causes which led to its establishment, or the diffi-

culties which attended its progress, it may be desirable to give a more detailed statement than would be required by the original promoters of it.

"After the disastrous failures in 1820, it may be easily imagined that the wants of Ireland, with respect to banking accommodation, were most severely felt, especially when it is stated, that with the exception of two very limited establishments in the south, viz., in Mallow and Wexford, there were, besides Dublin itself, only two places in the whole extent of the kingdom in which banks remained, viz., Belfast and Cork; all those previously existing (and they had been numerously spread over the country) had, from their want of capital, or from having been imprudently managed, either failed, or been withdrawn. The charter of the Bank of Ireland, however, which limited every other banking company to six partners, operated to prevent the establishment of any with such a command of capital as should secure the entire confidence of the country, or afford that assistance to agriculture and commerce which was enjoyed in more favoured parts of the empire.

"This state of things at length led to a negotiation between government and the Bank of Ireland, for opening, to a certain degree, the charter of that corporation; and two acts of parliament were passed, one in 1820, and another in 1824, permitting the establishment of joint-stock banking companies without any limitation as to the number of partners in any place in Ireland, distant more than fifty miles from Dublin.

"By this act of the legislature, a more extensive field for banking operations in Ireland was presented, holding out reasonable expectations of an ample return for the capital invested, whilst at the same time important benefits would be conferred on that country.

"That such institutions might be carried on with safety and advantage was satisfactorily proved by the experience of one of the sister kingdoms, in which they had been established for one hundred and thirty years; and to their operation, the almost unexampled improvement of that country is in a great measure to be attributed.

"The example of Scotland has also proved that the prosperity of such institutions does not depend on the enjoyment of any monopoly, or of any exclusive or chartered privileges, but that when regulated by prudence and caution, they will be found, perhaps, in a greater degree than most commercial undertakings, equally conducive to the true interests of the country, and to the profitable employment of the capital of the proprietors.

"Influenced by these considerations, a number of gentlemen held a meeting in London on the 11th June, 1824, for the purpose of deliberating on the best means for carrying these views into effect.

"Measures were subsequently taken, after the mission of one of the present directors to Ireland, for the formation of the society, by the publication of a prospectus, and an invitation to subscribe a suitable

capital; and towards the end of the year 1824, applications for shares to an amount very far exceeding the capital, which was considered to be sufficient, having been received, the gentlemen by whom the undertaking was set on foot, proceeded to allot shares to the extent of 20,000 of 100*l.* each, forming a capital of two millions, as originally intended, and to call for a deposit of 5 per cent. on the scrip certificates being issued to that amount.

"As the capital of the society was chiefly to be raised in Britain, and indeed as the society itself was called into existence by the very circumstance that capital adequate to such an undertaking could not be found in Ireland, there was an obvious expediency in making London the principal seat for directing the operations of the bank, had there even existed no legal impediment to the principal board being established in Dublin.

"Many difficulties, however, which it required both time and perseverance to surmount, were found to stand in the way of the undertaking. These difficulties arose from the imperfect state of the law respecting banking business in Ireland, and no other remedy appeared for their removal than an appeal to the legislature to amend the law: whether this attempt could be best made by the introduction of a private bill into parliament, or by a recommendation to government to introduce a general measure, was a subject of much anxiety and deliberation to the directors. On every side they found themselves involved in difficulties, and it required the greatest care and circumspection to avoid those errors which might hereafter prove prejudicial to the establishment.

"There were but two ways of proceeding, viz., by private bill, or under the authority of a general amendment of the banking laws.

"To proceed by a private bill was found impracticable, from the state of the law relating to banking both in England and Ireland; and independent of that consideration, the directors were unwilling to found upon the provisions of a private bill an establishment which ought, in every sense, to be regarded as a national one.

"No other course, therefore, was left, than an application to the government to introduce, with all official authority, a bill for the amendment of the general banking laws in Ireland.

"The directors found the greatest readiness on the part of government to co-operate in this plan, and the proper steps were taken for bringing the subject before parliament.

"In the progress of this negotiation, difficulties arose from the supposed collision with the chartered rights of the Banks of England and Ireland, and considerable delay ensued, both in the conferences with the government, and in the progress of the bill in parliament, before the impediments arising from such conflicting interests could be removed.

"In the mean time nothing that could be done was neglected.—Encouraged by the sanction of government, and anticipating a success-

ful issue to the proceedings in parliament, the directors felt themselves justified in taking certain preliminary steps, necessary for the ultimate attainment of the objects in view.

"The selection of officers, in particular, was a matter of paramount importance, both on account of the great number required to fill the intended situations in Ireland, and the necessity there was to scrutinize their qualifications as to character and ability. Communications were made on this subject with various gentlemen in different parts of the country, from whom it was expected the best information could be obtained.

"The prospectus of the society having set out with the resolution, that the business should be conducted on the principles which had been so long and so successfully acted upon in Scotland, it seemed desirable to obtain from that country persons trained up in banks there, provided their qualifications in other respects were such as to recommend them.

"With this view the secretary was sent down to Edinburgh in February for the purpose of making inquiries, and notice having been given in the public papers that persons were wanted to fill situations in the projected establishments in Ireland, a gentleman in the above society was employed to receive applications, and to institute the most minute and scrupulous inquiries regarding the character and qualifications of those who should apply.

"Another gentleman from the same city was also engaged to proceed to London to assist the directors in the formation and prosecution of a plan for conducting the business, when they should be ready to commence it in Ireland.

"The extensive correspondence which the applicants and inquiries produced by the measures above mentioned necessarily occasioned, occupied the attention of the directors very closely, and for a considerable length of time, and the result has been, that the services of a number of most valuable officers have been secured to the society.

"At length, at the end of March, 1825, the bill was introduced into the House of Commons by the government, and after a considerable struggle, arising from the natural jealousy with which the directors of the Bank of Ireland received this undertaking, as well as from a just sense of duty towards the body of proprietors, of which they were the representatives, the bill received the sanction of the legislature, and on the 10th of June the society was enabled, under its provisions, to adopt such measures as were necessary for giving effect to its intentions.

"The directors who had in the mean time been prosecuting the correspondence and inquiries instituted as before-mentioned, regarding houses of business, officers, &c., now felt themselves, for the first time, in a situation to make their final arrangements.

"Accordingly, contracts for supplying notes, books, and stationery, were, after obtaining estimates, forthwith entered into; officers for the branches intended to be first opened were engaged, and a deputation of three directors was appointed to visit Ireland, for the purpose of completing the arrangements there, by obtaining suitable houses for business, and selecting the most proper persons in each place to be appointed local directors, who, from their knowledge of the country and of business, should be qualified to assist the managers in judging of the security of parties wishing to deal with the bank, and who should at the same time, by a general superintendence of the affairs of the branch, secure fidelity and diligence on the part of the officers in the discharge of their respective duties.

"It must not be omitted to be mentioned, that in the beginning of 1825, immediately after a communication was made in Dublin to the Bank of Ireland of the intentions of this society, active measures were taken by the directors of that corporation to establish branches in almost every city and town in Ireland which had been announced in the prospectus, as a station for the operations of this society.

"These measures were followed up by their establishing a branch at Cork, in the month of March, and by the opening, in quick succession, branches at Waterford, Clonmel, Londonderry, Newry, Belfast, and Westport.

"The field of this society's operations was in consequence considerably narrowed, but enough was left to justify the expectation that the undertaking would still be productive of important benefits both to the shareholders and to Ireland.

"The three directors deputed, as before-mentioned, after the passing of the Act, proceeded, about the middle of July, on their mission to Ireland; and accompanied by the society's accountant, and by their solicitor for Ireland, visited successively Cork, Limerick, Clonmel, Waterford, Wexford, Newry, and Belfast; in each of which places they either completed the arrangements which had been already proceeded in, or laid the foundation for ulterior measures; and having also formed an arrangement with the respectable firm of Messrs. Latouche and Co., to conduct such business as it was lawful for the society to transact in Dublin, they returned to Cork, to witness the actual commencement of the business at that branch, on the 1st day of September.

"This having been done under circumstances every way encouraging, the deputies returned to London, with the understanding that they should, in due time, be succeeded by another deputation, to finish the arrangements at the other places above-mentioned, which want of time did not permit them to complete, and also to visit the remaining places which had been selected or recommended at proper stations for the establishment of branches.

"In the succeeding month (October), accordingly, another deputation

was appointed, consisting of two directors, who, accompanied as the former deputies were, visited Kilkenny, Clonmel, Cork, Limerick, Birr, Athlone, Galway, Sligo, Londonderry, Belfast, Armagh, and Newry, witnessing in their progress the opening of the branch at Limerick, and the commencement of business there, under the most promising auspices, on the 1st day of November.

"In consequence of the arrangements which were completed by these successive deputations, the following branches were opened at the dates respectively undermentioned: viz., Cork, on Sept. 1, 1825; Limerick, Nov. 1, 1825; Clonmel, Nov. 15, 1825; Londonderry, Dec. 12, 1825; Sligo, Feb. 20, 1826; Wexford, Feb. 27, 1826; Belfast, March 1, 1826; Waterford, May 1, 1826; Galway, May 1, 1826.

"So that there are now nine establishments in active operation in Ireland; and it may here be proper to state, for the information of the proprietors, the regulations which have been adopted, in the first place, for conducting business in a proper manner at the branches; and, secondly, for the control and superintendence which are exercised over them by the directors in London.

"First.—As to the branches.

"For the due management of the business at each, a suitable house has been obtained, and the following officers have been provided: viz., manager, accountant, teller, clerk, and porter, all of whom find security for their fidelity.

"Where the scale of business requires it, the number of the inferior officers is increased, but there are only two principal officers at any branch, viz., manager and accountant; and for securing more effectually the proper discharge of the duties of all, and assisting the manager with advice and information, there has been appointed at each station a board of local directors, consisting, according to circumstances, of three, four, or five gentlemen of the first respectability in the place, who, in order to be eligible, must themselves have an interest in the establishment by holding ten shares each of its stock.

"The duty of these gentlemen is to meet daily, at a given hour, at the bank's office, and, along with the manager, to judge of bills presented for discount, and of all applications for credits.

"For every act of business of this nature, it is necessary that two local directors and the manager be present, and it is provided, that where applications for discounts or credits exceed, in individual cases, a certain fixed amount, or when the manager differs in opinion from the majority of the local board, the matter must be submitted to the decision of the court of directors in London. It is further the duty of the local directors to compare daily the vouchers with the entries in the cash-book; to count, at stated intervals, the cash in charge of the manager, and to certify the returns made periodically from the branch to London.

"Second.—As to the superintendence of the court of directors in London.

"Regular advices of the proceedings at the branches are transmitted by the managers to London, by post, every second or third day, according to circumstances, and at the end of each week a complete statement of the whole transactions is made up and forwarded by the mail-coach. These returns are first examined by the officers of the London establishment, and then submitted to the directors.

"For giving the necessary orders arising out of these communications; for judging of all matters referred to them from the branches; for disposing of the bank's funds in London and Dublin; and for the discharge of all other duties implied in the exercise of a superintendence over the whole establishment, whether in Ireland or in London, the directors hold regular and daily meetings; it being so arranged that a committee of not less than three, and which may consist of five directors, shall attend to do the ordinary business of each day; and that a weekly court of the whole directors shall be held on each Friday, to whom all special matters are referred, and by whom the proceedings of the daily committees are regularly reviewed.

"By means of these regulations, the directors find that they are enabled to conduct the business in such a manner as to afford every prospect of success, and which justifies them in holding out to the proprietors the expectation of an adequate return at no distant period, for the capital embarked in the undertaking.

"The comparatively recent establishment, even of the branch first opened, viz., 1st September last, and the still more recent commencement of business at the greater number of the branches, do not admit of any arithmetical statement being made at present which could be considered as affording certain data from which the probable results of a year could be deduced, more especially as from the nature of the export trade of Ireland, the amount of business done in any one place at different seasons of the year is very dissimilar.

"But, from the experience which the directors have actually had of the business, they have not the smallest hesitation in stating to the proprietors that it has been safely and successfully carried on, and that at every one of the stations it is making a gradual but certain and steady progress, which affords the best encouragement for its further prosecution.

"In one instance only, and that in its result tending to demonstrate to the shareholders and to the public the solid principles on which the society has been founded and is governed, has any circumstance occurred to interrupt the regular course of the transactions.

"The circumstance alluded to occurred at Cork in the end of February and the beginning of March last. Owing to the unexpected discontinuance of one of the two local banks in that city, by the sudden death of

Mr. Pike, and the failure of the other, a general alarm was instantaneously created amongst the holders of bank notes, which, increasing to a panic, produced a run on the Provincial Bank's branch there for gold; that establishment being the only one from which the demand for specie on the part of the public could be supplied, the Bank of Ireland not considering itself liable to pay in gold, except in Dublin.

"This demand for gold was promptly met by the stock previously provided at the branch, which was sufficient to answer all ordinary emergencies, and by the active and energetic measures of the bank's officers in procuring the necessary supplies. These supplies were obtained whilst a considerable part of the original stock yet remained, so that neither refusal nor delay for one moment occurred in satisfying the demand of every individual who presented the bank's obligations, whether consisting of notes or receipts for deposits of any amount, and who desired payment to be made in gold.

"The directors observe with pleasure that the Cork branch is gradually recovering its former position, and they cannot doubt that the very severe and public trial to which, by this event, the Provincial Bank has been subjected, will be to prove more clearly its solid foundation, and more firmly to establish its credit over the whole of Ireland.

"Having thus, for the information of the proprietors, given a distinct detail of their proceedings, from the origin of the society to the present time, there remain two very important points to be noticed, in which every proprietor will naturally feel himself interested, viz., the extent of the future calls to be made on the proprietors, and the probability of their receiving a dividend within a given time.

"With regard to the first of these points, the directors are desirous to regulate themselves by the principles which, from the beginning of the undertaking, were held out to the subscribers, viz., that as the branches should come into operation, and as the business in Ireland should extend itself, such portions of the capital as were found to be required would be progressively called up.

"Acting on this principle, and looking to the gradual extension of the business, which, as already mentioned, is proceeding in the most satisfactory manner, the directors have to state their conviction of the expediency of making an early call of 5 per cent., and a second call of 5 per cent. within the next twelvemonth. At the same time they conceive it will be satisfactory to the proprietors to learn that no farther calls are anticipated as being necessary.

"On the second point before-mentioned, viz., the payment of dividends, the directors, after mature consideration of the whole affairs of the bank, feel themselves justified in intimating to the proprietors their intention to declare, in manner provided by the deed, a dividend at the rate of 4 per cent. per annum, for the half year ending Midsummer next, on the amount of the three instalments which have been called up.

"The directors cannot close this report without adverting to the disastrous revulsion in commerce which has lately taken place, nor without calling the attention of the proprietors to the projected change in the currency of the United Kingdom. They have constantly kept in view the probable consequences of these events, and the degree of disquietude which the agitation of such questions in parliament always occasions in the public mind; and whilst anxious to redeem the pledge which they gave to the public, of affording every reasonable facility to commerce and agriculture, they have been careful not to foster speculation or encourage ill-timed enterprise, considering it best for the interest of all parties to avoid too extensive a circulation, and rather to gain the good opinion of the wise and prudent than to seek for popularity through improvident advantages and unseasonable liberality. In these views they have been seconded by the local directors, who have received the instructions of the court with kindness and attention, and have evinced a degree of zeal, intelligence, and prudence in the conduct of the various branches which well deserves the thanks of the company.

"It only remains for the directors to state that the parliamentary discussions during the present session have fully recognized the principles on which the Provincial Bank of Ireland has been founded, and that the mode in which its affairs are conducted has been strictly examined before the committee of both houses.

"The fullest and most unreserved communications were made to the Earl of Harrowby and the Right Honourable Robert Peel, chairmen of those committees, respecting the circulation of the Provincial Bank, the deposits received, and the amount of specie in gold and silver.

"It must be satisfactory to the proprietors to know that, from individuals of the highest authority and practical experience, the Provincial Bank of Ireland has been admitted to be an establishment not only promising the greatest national benefit, but as affording a secure and profitable mode of investment, and that the parliamentary inquiry which has taken place is likely to lead to such further amendment of the banking laws of Ireland as will afford additional facilities for carrying on the business of the company."

1827. In the beginning of this year the Hibernian Bank being restricted from issuing notes, issued what were called tokens. These tokens were engraved on unstamped paper, and were of the size and had the appearance of notes. They contained the words, "Hibernian Bank"—"Token"—"One Pound"—"Hibernian Joint-stock Company"—the number and date, and the names of two of the officers of the bank; but they did not contain the phrase, "I promise to pay:"

and hence it was supposed that they could not be deemed notes, and consequently were not legally prohibited. In consequence, however, of an intimation from the government, they were discontinued.

The Belfast Bank, Messrs. Batt, Houston, and Batt; and the Commercial Bank, Belfast, Messrs. Tennant and Co., effected a junction, and formed themselves into a joint-stock bank, under the title of the Belfast Banking Company, with a capital of 500,000*l.* The new bank commenced business August 1, 1827.

1828. In this year was passed "An Act to repeal certain Acts, and to consolidate and amend the laws relating to bills of exchange and promissory notes in Ireland" (9 Geo. IV. c. 24). This Act declares that bills falling due on Sunday shall be payable, and if not paid may be noted or protested, on the preceding Saturday, and not as heretofore on the following Monday. And it enacts, that Good Friday, Christmas-day, and every day of fast or thanksgiving appointed by his Majesty shall for all purposes whatsoever, as regards bills of exchange and promissory notes, be treated and considered in Ireland as the Lord's day, commonly called Sunday. This act requires that every notary, practising in Dublin, shall keep a public office in some known or convenient street or place in the said city, and it fixes the amount of the notaries' fees. Notaries public upon receiving bills for the purpose of protesting or noting must enter or register the same in a book to be open for inspection. The charge for entering a bill in this book is one shilling. The charge for presenting the said bill within the limits or bounds of any city or town in Ireland wherein the notary resides, and demanding payment or acceptance thereof, is one shilling and sixpence. The charge for ticketing the said bill in case it shall not be accepted or paid before nine o'clock on that evening, is one shilling and sixpence. For protesting an inland bill above the amount of 5*l.* and under 20*l.*, the charge is 2*s.* 6*d.*; above 20*l.* the charge is 4*s.* For protesting any foreign bill the charge is 4*s.* These charges for protesting are exclusive of the one shilling charged for registry, and in

addition to the amount of stamp duty on the protest. A notary is not bound to receive payment of a bill unless the noting fees are paid at the same time; and in all cases he may recover the amount of charges from the holder of the bill, and the holder may recover the amount from the antecedent parties. A notary cannot be compelled to receive payment of a bill after nine o'clock in the evening; but every such bill or note whereof payment shall not be made, or duly and regularly tendered, at or before such hour of nine of the clock, shall be considered to be and shall be dishonoured to all intents and purposes; and, therefore, such notary public shall and may note or protest the same for non-payment, any law, statute, or usage, to the contrary in anywise notwithstanding. This Act came into operation on the 1st of September, 1828.

In this year was also passed an Act to restrain in England the negotiation of promissory notes and bills under 5*l.* issued in Scotland and Ireland.

An Act was also passed "to enable bankers in Ireland to issue certain unstamped promissory notes upon payment of a composition in lieu of the stamp duties. Banks are allowed to take out licences for the issue of unstamped notes, and to pay half-yearly upon the average amount in circulation the sum of one shilling and sixpence for every hundred pounds (9 Geo. IV. c. 80).

In the same year an Act was passed for making promissory notes issued by banks, banking companies, and bankers in Ireland, payable at the places where they are issued (9 Geo. IV. c. 21). Previous to the passing of this Act, the notes issued by the branches of the Bank of Ireland were payable only in Dublin; and some of the branches of the Provincial Bank issued notes payable only at other branches. Thus, the notes issued at Coleraine were made payable at Belfast, those of Kilkenny at Waterford, those of Ballina at Sligo, and those of Tralee at Cork. This act was introduced into parliament by Mr. Spring Rice, now Lord Monteagle.

In the month of October in this year occurred the first run for gold upon the Provincial Bank of Ireland: it commenced

at Wexford, and then proceeded to Kilkenny, Waterford, Clonmel, and Limerick. It was supposed at the time to arise from some suspicion of the bank; but it is now generally believed that it was produced by the same influence that produced the subsequent runs. It was not directed against any of the branches of the Bank of Ireland, nor could it with effect, as all their notes were at that time payable only in Dublin. About the time the run was subsiding, I wrote the following letter, which was inserted in the 'Leinster Journal,' a newspaper published at Kilkenny:

"Sir,—In referring to the recent run upon the southern banks you have strongly pointed out the advantages afforded by those banks, but you have said nothing of the advantages of the run. Allow me, as an impartial observer, to point out those advantages. A run upon a bank is advantageous, in the first place, to the runners themselves. Running is an exercise highly conducive to health, and when a wearied runner enters a bank, the doors of which he expected to find closed, and is presented with shining sovereigns in exchange for what he previously deemed a worthless rag, he must experience such pleasurable sensations as will amply compensate him for his former toil and anxiety. A run, too, is greatly for the advantage of all persons who are employed in the manufacture or sale of whiskey. A man who has engaged in a hard run, and has got his money besides, would hardly think it proper to return home without taking a glass of the *native;* and if he should take two glasses instead of one, that you know would double the advantage. A run may induce the bank to limit their discounts, in consequence of which the price of butter, corn, and all other kinds of agricultural produce may be depressed, and this, of course, would be for the advantage of the buyers. A run, too, that shall call forth into circulation a vast quantity of gold would enable coiners to circulate counterfeit sovereigns, whereby the fine arts would be encouraged, more labour would be put into requisition, and an ample reward would be given to the exertions of *honest* industry. A run affords much food for conversation, and affords matter for profound and lofty speculation. Every one will of course investigate the causes of the run, and each may luxuriate in the reveries of his own imagination. The less that is known upon the subject the wider field will there be for conjecture; and it may then be a matter of deep debate whether the run was occasioned by a peculiar configuration of the planets, or was merely the effect of *lunar* influences upon the minds of the people. These, Sir, appear to me to be some of the advantages of a run.

"I am myself, however,

"No Runner."

Dec. 5. On this day was tried in the Court of King's Bench, Dublin, an action brought by the Bank of Ireland against the Provincial Bank of Ireland, for the purpose of preventing the notes of the Provincial Bank being paid in Dublin, by Messrs. Latouche and Co. It was contended on the part of the Bank of Ireland that such payment was a violation of a clause of the Act which permitted joint-stock banks to be established in Ireland. The following is an extract from the charge to the jury by the lord chief justice :—

"I think then, gentlemen, you ought to find a verdict for the plaintiff, unless you believe that the Provincial Bank have not either by themselves or their agents *paid* their notes on demand in the city of Dublin; and I think there is evidence they have done so. The second question is this: I think the Provincial Bank are liable to this penalty, unless they have no 'house of business' or establishment in Dublin. I shall tell you there is evidence of their having a house of business or establishment in Dublin, unless you be of opinion that on the evidence of Mr. Latouche and Mr. Newenham, nothing was done by their house for the Provincial Bank, except what is done in the usual course of dealing between bankers and customers. I take it for granted that a country banker may have a town banker. I do not think it was intended by the legislature to prevent this. If, on the contrary, you think that this was not the usual business between banker and customers, but that they paid their notes at the house and establishment, not of Latouche and Co., but at the house and establishment of the Provincial Bank, you ought to find for the plaintiff."

The jury returned their verdict—"We find the plaintiff sixpence damages and sixpence costs."

His lordship asked the jury if it was their opinion that the house and establishment in Castle Street was the house of business and establishment of the Provincial Bank? The foreman of the jury answered, that they did not discuss that point, that they merely found that the notes of the Provincial Bank had been paid there.

The Provincial Bank immediately put in a bill of exceptions, with a view to try the case at a higher tribunal, but through the mediation of the Lords of the Treasury an amicable agreement was subsequently made between the Bank of Ireland and the Provincial Bank for the settlement of points in dispute in this action.

1829. The following paragraphs are taken from the Report of the directors of the Provincial Bank of Ireland to the proprietors, on the 21st of May, 1829.

"During the last session of parliament two Acts were passed, affecting the business of banking in Ireland, from both of which there may be expected to follow results beneficial to the Provincial Bank.

"The first of these acts is 9th Geo. IV. c. 80, under which bankers in Ireland are enabled to issue unstamped notes, upon payment of a composition in lieu of the stamp duties thereon. This measure was introduced into parliament, in consequence of communications which the directors had with his Majesty's government; and it places the banks in Ireland, with respect to their notes, on the same footing as those in England. Instead of paying, in the first instance, a stamp duty on each note, before any could be issued, and of such notes being limited in circulation to three years from their dates, there is substituted a composition duty, which is payable half-yearly, on the actual amount only of the notes in circulation; and the limitation as to time is abolished. Although, on the instant of making it, this change has occasioned an increase of expense, it will, in the sequel, produce a saving in the charge for notes, and be attended with very considerable convenience to the establishment, besides operating as an additional protection to the public against forgery.

"The other act of parliament which has been referred to, is the 9th Geo. IV. cap. 81: the operation of which is, to place all bankers in Ireland on the same footing of liability to pay their notes in gold at the places of issue. By this statute there is introduced a system of equal competition amongst all banks, or agencies of banks, established beyond 50 miles from Dublin; and the security to the public is increased by making the convertibility of notes into specie more direct and more immediate. In both of these respects the operation of this Act is likely to promote the interests of the Provincial Bank."

1830. In this year the government proposed to assimilate the stamp duties of Ireland to those of England. This subject occasioned much discussion in the Irish papers. As this measure would have raised the composition for the stamp duties upon the Provincial Bank of Ireland from three shillings to seven shillings per cent., I wrote the following letter, which was inserted in the 'Waterford Mail' of May 5, 1830:

"Sir,—In reference to the proposed assimilation of the stamp duties in England and Ireland, permit me to call your notice to one class of duties that has not yet received the public attention—I mean, the stamp duties upon bankers' notes.

"In England, bankers are permitted to compound for their duties at the rate of 3*s.* 6*d.* per cent. upon the average amount of notes in circulation during each half-year. In Ireland the composition is at the rate of 1*s.* 6*d.* per cent. So that if these duties be assimilated, there will be an increase of duty in Ireland to the extent of 133 per cent. Under the present circumstances of the Irish banks, this heavy advance appears to be extremely burdensome and pernicious.

"It is universally admitted that Ireland is in want of capital. We have heard complaints upon complaints, in parliament and out of parliament, of the want of capital in Ireland. How, it has been said, can a country be improved without capital? How can labourers be employed without capital? How can a better system of husbandry be introduced —how can bogs be reclaimed—how can farmhouses be erected, without capital? How can the fisheries be extended, or canals be constructed, or railroads be formed, without capital? How, without capital, can new branches of industry be established, or the natural resources of the country be developed?

"If it be true that Ireland is in want of capital, it is equally true that it is the business of banks to supply capital. Banks are fountains of capital, the streams of which fertilize agriculture, and propel the machinery of commerce. If Ireland were as thickly studded with banks as England is, there would be no want of capital. England complains not of want of capital, but of want of profitable channels for its employment. But in Ireland the number of banks is exceedingly small, when compared with that of England. We have five banks in Dublin, and throughout the country we have fifteen branches of the Provincial Bank of Ireland, eleven branches of the Bank of Ireland, two joint-stock banks at Belfast, and a private bank at Mallow. Most all these banks are established at sea-ports, and but few in the heart of the country. There are only four inland towns, namely, Armagh, Athlone, Kilkenny, and Mallow, that have the advantage of a bank. If it be true that Ireland needs capital, and that banks supply capital, it is desirable that banks should be extended throughout every province, and that every town, as in England, should have a bank. And why have they not? Is it not because it was feared that the business of those towns would not be sufficient to pay the expense of the establishment? Is it not because our banking companies wished first to make the experiment in the larger cities and towns before they extended their branches into the less commercial districts? If such has been the case hitherto, can it be expected that new branches will be opened when their expenses will be increased by the duty on their notes being more than doubled? Can it, then, be judicious to lay on this additional duty, calculated as it is to prevent the extension of institutions so admirably adapted to supply the wants of the country?

"We have heard much of the necessity of English capital. And in

what way can English capital be so well introduced into Ireland as by banks? English agriculturists and manufacturers have to contend against difficulties to which English banking companies are not exposed. Banks supported by English capitalists are the most easy, the most inoffensive, the most effectual means by which English capital can be supplied. But what encouragement is given to English capitalists to invest their property in Irish banks if they are to be immediately visited with additional taxation? And what fairness can there be in compelling banks stationed in a country where the pecuniary transactions are of small amount, and trade and manufactures are comparatively trifling, to pay the same rate of duty as banks established in a country where wealth is immense, where the transfers of property are enormous, and the profits of bankers are proportionably high?

"The system of joint-stock banks and of branch banks in Ireland is at present only in its infancy. With the exception of the Dublin office of the Bank of Ireland, there is not a banking company or a branch bank that is yet five years old. At the commencement of any bank great expense is unavoidably incurred, and besides a degree of caution is necessary in its management, so that several years elapse before a bank is enabled to carry its business to the full extent, or to realize the full profits that the means of the district may be able to supply. Is it proper, then, to lay additional taxes upon banks of only a few years' standing? To compel them in the infancy of their existence to bear the same burden that is borne by those who have attained the maturity of their strength? Ought not some respite to be allowed until it be ascertained by undoubted experience that these new banks will be able to sustain this heavy taxation? And is not this the more necessary when for several years past the interest of money has been so exceedingly low as to render the profits of banking much less than might otherwise have been acquired?

"The contributions, direct and indirect, which banks produce to the state, are sufficient grounds for exempting them from any imposition that might prevent their number being increased. In places where there are no banks few bills of exchange are drawn because they cannot be discounted. But let a bank be established, and the bills of exchange are soon multiplied above a hundred-fold, and the stamp duty of course increases in proportion. Besides the stamp duty on bills of exchange, there are stamp duties on notes—stamp duties on cash credit and other bonds—stamp duties on protests—and large annual payments for the postage of letters. If, then, these additional revenues are obtained in consequence of the establishment of banks, is it wise in the government to impose duties which by preventing the extension of banks will prevent the increase of those revenues? Does not such a policy resemble that of the boy who ripped up the goose that laid the golden eggs?

"Although the Irish banks pay a less duty upon their notes than do the English banks, they pay a much higher duty upon their bills of exchange. By the 9th Geo. IV., c. 23, bankers in England are permitted to compound for the stamp duties on their notes and on bills drawn upon London at twenty-one days' date at the same rate of composition. By 9 Geo. IV., c. 80, bankers in Ireland are permitted to compound for the stamp duty on their notes; but no mention is made of bills, and of course these are subject to the ordinary stamp duties. A bill of 50*l.* drawn under the composition act by an English banker pays to the government only twopence-halfpenny, while a bill of the same amount drawn by a bank in Ireland pays three shillings. A circulation throughout the year of 10,000*l.* in bills of 30*l.* each, drawn upon London by a branch of the Bank of England, or by an English bank that had compounded for the duties, would pay to the state only 35*l.*, while the stamps upon the same bills drawn by a bank in Ireland would amount to 577*l.* 15*s.* It may be said that this is no tax upon the Irish banks, inasmuch as they charge the stamps to the parties who obtain the bills. How can they do otherwise? If the government requires the money from the banks, must not the banks require it from the public? And such, perhaps, will be the case with the new stamp duties. If the proposed measures should be really inflicted, the banks will probably try to reimburse themselves by raising their charges. The rate of discount may be advanced, and the agriculture and the commerce of Ireland will have to bear the burden. It is thus that our banking companies may endeavour to sustain the additional taxes as far as regards their existing establishments, while they will be less inclined to hazard the opening of new branches, because such branches will demand a greater outlay of capital and a higher annual expenditure than has hitherto been required.

"G."

In the month of June, a run for gold was made upon the banks at Waterford, in consequence of the publication of the following letter, addressed by Mr. O'Connell to the editor of the 'Waterford Chronicle':—

"This is the very time to attack government in every legal and constitutional way. I very much approve of your plan of securing a gold currency for Ireland. If gold be good for England, as a medium of exchange, it ought to be equally good for Ireland. Indeed, it is a very formidable advantage that the English have over us in this, that their currency is of actual value as an article of commerce, being gold, and that we, Irish, should have no other currency than mere paper, in itself, as an article of commerce, of no kind of value whatsoever. It is too bad that the welfare of Ireland should be thus postponed, as it

were, to serve England. It seems, therefore, a duty to rouse the people to effectuate the necessary change, by calling for gold for every pound note. A man who has a pound note may surely as well have a sovereign. A thousand accidents may make a pound note not worth 1½*d.* There is nothing which can possibly render the sovereign worth less than 20*s.*; and let me tell you that it may again become worth 30*s.* of the then currency. Call, therefore, on the people—the honest unsophisticated people—to send in the bank notes of every description, and to get gold. Take this as a measure of precaution everywhere—let it spread far and near, and then at least we will be so far on a par with England."

This run is remarkable for being the first to which the Bank of Ireland or the savings' bank were ever exposed. It did not extend beyond Waterford. Several of the Dublin newspapers inserted articles in favour of a gold currency, with a view of producing a general demand for gold, but in this instance the attempt did not succeed.

1831. January. In consequence of legal proceedings taken by the government against Mr. O'Connell, a run for gold took place on the Bank of Ireland in Dublin, and on all the banks in the south of Ireland. During the run I published the following article in the 'Waterford Mail':—

" BANK NOTES VERSUS GOLD.

" To the Farmers, Landlords, Merchants, and Traders of the City and County of Waterford.

" The humble Petition of Messieurs Les Billets de Banque.

" Sheweth,

" That your petitioners were appointed by Acts of the English and Irish parliaments to be measurers of value—it has been their office to denote the relative value of commodities with a view to their equitable transfer from one person to another—and they have discharged this office with more convenience to the public than it could have been performed by any other medium of exchange.

" That, notwithstanding these services, sundry persons have become evil-disposed towards your petitioners, and have attempted the total destruction of your petitioners, not by requesting the legislature to repeal the Acts which called them into existence, but by endeavouring to produce what is usually called a run upon the banks.

" That your petitioners therefore beg permission to state what they deem would be the effects upon the agriculture and commerce of the city and county of Waterford, in case your petitioners should be

banished or destroyed through the machinations of such evil-disposed persons.

"The banks which now discount at four per cent. in consequence of issuing their own notes, would, in case notes were abolished, be compelled to charge a higher rate of discount, and perhaps a commission besides. They would find it more profitable to employ their money in mortgage or in the funds, unless they were to make such charges on their discounts as should render their capital equally productive, after having paid the expenses of their establishment. As, too, the banks would be deprived of the capital now created by the issue of their notes, they would probably restrict the amount of their discounts. They would discount only for merchants of the first class, and those of an inferior grade would be compelled to wait for remittances from England, instead of receiving the money for their bills, as they now do, the moment their shipments are made. The substitution of gold for notes would, therefore, put many of our merchants frequently out of the market, and impose heavy charges upon the remainder.

"The price at which commodities exported from Waterford can be sold in England, is regulated by the market price in England. The Irish exporter has no power to sell his exports at a higher price. If, then, the merchant is subjected to higher charges for the discount of his bills, the only way he can reimburse himself is by giving a less price to the farmer. The fall in the price of corn, butter, and pigs in Ireland, must be equal to at least the amount of these additional charges. Besides, should the inferior merchants not be able to get their bills discounted at the banks, there would be fewer buyers in the market, and this would tend to reduce prices still farther. Such would probably be the effect of the substitution of gold for notes, even were it produced by a legal enactment; but were it produced by what is called a run upon the banks, the prices of agricultural commodities would fall much lower. In addition to the above-mentioned causes, there would be a degree of alarm, a sort of panic, that would have a powerful effect for a while in reducing prices. A run upon the banks for gold would therefore be ruinous to the farmers.

"As the farmer could not obtain an adequate price for his produce he could not pay his rent, and the landlord must suffer. Perhaps the present rents might for a short time be squeezed out of those farmers who have accumulated a little capital, but ultimately rents must fall in proportion to the reduced value of the crops.

"As the farmers and landlords would not have the same amount of money as formerly to lay out with the traders and shopkeepers, these would find their business decline, and those who had given credit would probably never recover the full amount of the debts due to them. And let it be observed, that while the substitution of gold for notes would materially reduce in Ireland the prices of the Irish exports, it would not

reduce in the same proportion the prices of the commodities imported. The price in Ireland of a commodity imported depends upon the price at which it can be purchased in England or in any other country from which it is obtained. So that while a gold currency would reduce the prices of corn, butter, and pigs, it would scarcely affect the prices of cotton, mercery, groceries, ironmongery, wines, timber, &c., &c. As these could not be purchased at a lower price than they are now, they could not be sold at a lower price, except the reduction were taken out of the profits of the importer. As, therefore, the sellers of agricultural commodities would receive for the same amount of exports a less sum of money, they would not be able to purchase so many imported commodities, and consequently the business of the dealers and shopkeepers must decline.

"Thus it appears that the substitution of a gold for a paper currency would be injurious to the banks by destroying a part of their capital and diminishing their business—would be injurious to the merchants, by increasing the charges upon their discounts, and limiting the accommodation they receive from the banks—would be injurious to the farmers, by reducing the price of agricultural produce—would be injurious to the landlords, by rendering the farmers unable to pay their rents —would be injurious to the traders and shopkeepers, by rendering the farmers and landlords less able to purchase their goods. Thus all these classes would be injured without any one class receiving any benefit.

"Wherefore your petitioners most humbly pray that you will prevent the arrival of these evils to the city and county of Waterford, and be pleased to discourage any attempts that may be made for the destruction of your petitioners.

"(Signed) "One Pound.
"Thirty Shillings.
"Three Pounds.
"Four Pounds.
"Five Pounds."

"We understand the above petition was handed for signature to Messieurs the 10*l.*, 20*l.*, 30*l.*, 50*l.*, and 100*l.* notes, but they all refused to sign, alleging that the matter did not concern them, for that no person whose circumstances enabled him to hold even a 10*l.* note, could possibly be so uninformed as to entertain the sentiments against which the petition contends, and they declared, upon their honour as gentlemen, that they had never heard such sentiments expressed by any individual with whom they had been conversant. It is reported that Monsieur 5*l.* has withdrawn his signature from the petition upon the same grounds."

At most of the principal places in the south of Ireland, meetings of merchants were held for the purpose of expressing their disapprobation of this interruption to commercial opera-

tions. The following resolutions were published in the Waterford papers:

"*Resolved*,—That we, the undersigned merchants, traders, and others of the city and county of Waterford, having observed with much concern, that a run for gold has taken place in the different branch banks in this city, which we consider as quite uncalled for, and most injurious to the applicants, and prejudicial to all classes of the community, do hereby pledge ourselves to take their paper in preference to gold in all transactions.

"*Resolved*,—That we recommend the suspension of the purchase of agricultural produce, until the run for gold on the banks subsides."

September 15. At one o'clock, a general court of proprietors of stock of the Bank of Ireland was held at the said bank (it being one of the quarterly general courts appointed by charter), for the purpose of receiving a communication from the court of directors. In the absence of the governor, John George, Esq., deputy-governor, was called to the chair; on taking which, he said it was with considerable regret he had to announce to the meeting, that indisposition prevented the governor from being present on that occasion. He then submitted the following statement:—"The court of directors are of opinion that the circumstances which have arisen out of the late proceedings in the House of Commons, with relation to the Bank of England, render it desirable to present to the court of proprietors the following communication regarding the affairs of the corporation, which they trust will prove satisfactory, and the court of directors hope that existing circumstances will justify, in this instance, a variation from a principle hitherto acted upon in this court:—That the amount of the surplus fund, that is, the property of the corporation, over and above the capital stock, on the 5th July, 1821, (after the sum of 500,000*l.* Irish currency, was taken out of the surplus fund, and added to the capital stock), remained at the sum of 1,104,000*l.* British currency, and that its amount at the present period is 1,049,573*l.* That this amount is independent of the value of the bank premises, both in Dublin and at the several country offices. That the variations in the amount of the surplus fund within the above period has not been considerable."

1833. During the month of March, while the bill, usually called "the Irish Coercion Bill," was under the consideration of parliament, a run for gold was made upon all the banks in the south of Ireland, with a view of preventing the passing of that bill. This, like all the preceding runs, was confined to the south of Ireland. No run has ever taken place upon a branch of any bank in the north of Ireland.

During this run the following article was inserted in the 'Waterford Mail' and the 'Waterford Chronicle':—

"WATERFORD LITERARY AND SCIENTIFIC INSTITUTION.

"On Thursday evening, the third lecture on ancient commerce was delivered by J. W. Gilbart, Esq. After recapitulating the heads of his former lectures on the commerce of ancient Egypt and of ancient Greece, the lecturer stated that the subject of the present lecture was the commerce of Tyre and Carthage. He considered this portion of ancient commerce to be exceedingly instructive, as it taught them the means by which nations, both in ancient and modern times, have acquired an extensive commerce. These means are, the possession of maritime power —the establishment of manufactures—the planting of colonies—and the accumulation of capital. Under the last division of the subject, the lecturer made the following observations upon banking:—

"In all countries where capital has accumulated, there is a class of men who become dealers in capital. They are not themselves engaged in trade, but they furnish merchants and traders with such temporary supplies of capital, as they may occasionally or periodically require. These men are styled bankers. It is their business to economize the national capital—to increase the rapidity of its circulation—and thus to render it more productive. In a district where there is no banker, a merchant or trader must always keep by him a sum of money adequate to meet any sudden demand. But when a bank is established, he need not retain this sum. He may trade to the full amount of his capital, and if he should have occasion for a temporary loan, he may obtain it by way of discount from the bank. Thus the productive capital of this country is increased. The banker is a depository of capital. He is like the fly-wheel of an engine, he either receives or communicates power, as the occasion may require, and thus maintains the firmness and increases the efficiency of the machinery of commerce.

"Bankers are not merely lenders of capital—they are dealers in capital. They borrow of those who wish to lend—they lend to those who wish to borrow. The borrowing of capital is effected by the system of deposits. Not merely merchants and traders, but persons out of trade; noblemen, gentlemen, farmers, and others, have usually in their possession small

sums of money, which they keep by them to meet their occasional expenses.—When a bank is established in their neighbourhood, they lodge the sums of money upon interest with the bankers. Individually they may be of small amount, but collectively they make a considerable sum, which the banker employs in granting facilities to those who are engaged in trade and commerce. Thus, these little rivulets of capital are united, and form a powerful stream, which propels the wheels of manufactures, and sets in motion the machinery of industry.

"Bankers also employ their own credit as capital. They issue notes, promising to pay the bearer a certain sum on demand. As long as the public are willing to take these notes as gold, they produce the same effects. The banker, who makes advances to the agriculturist, the manufacturer, or the merchant, in his own notes, stimulates as much the productive powers of the country, and provides employment for as many labourers, as if, by means of the philosopher's stone, he had created an equal amount of solid gold. It is this feature of our banking system that has been most frequently assailed. It has been called a system of fictitious credit—a raising the wind—a system of bubbles. Call it what you please, we will not quarrel about names; but by whatever name you please to call it, it is a powerful instrument of production. If it be a fictitious system, its effects are not fictitious; for it leads to the feeding, the clothing, and the employing of a numerous population. If it be a raising the wind, it is the wind of commerce, that bears to distant markets the produce of our soil, and wafts to our shores the production of every climate. If it be a system of bubbles, they are bubbles which, like those of steam, move the mighty engines that promote a nation's greatness and a nation's wealth.

"Thus a banker, in three ways increases the productive powers of capital. First,—he economizes the capital already in a state of employment. Secondly,—by the system of deposits, he gives employment to capital that was previously unproductive. Thirdly,—by the issue of his own notes he virtually creates capital by the substitution of credit.

"The means which a banker possesses of granting facilities to trade and commerce will be in proportion to the amount of these three sources of capital. If his own capital amount to 100,000*l.*, and the deposits in his hands amount to 100,000*l.*, and his notes in circulation amount to 100,000*l.*, he has then at his command the sum of 300,000*l.* with which he may discount bills for his customers. But if the public say to him, 'We will take your notes no longer, give us gold,' he will issue gold, but he must then reduce his discounts from 300,000*l.* to 200,000*l.* If the depositors also demanded the return of their deposits, he must reduce his discounts from 200,000*l.* to 100,000*l.* His capital will then be reduced to the original sum of 100,000*l.*—the sum raised by deposits being again rendered unproductive in the hands of the owners, and that raised by the circulation of notes being altogether annihilated.

"Banking promotes the prosperity of the country, chiefly by increasing the amount and efficiency of its capital. In the history of commerce we find no principle more firmly established than this—that as the capital of a country is increased, agriculture, manufactures, commerce, and industry will flourish; and when capital is diminished, these will decline. The man who attempts to annihilate any portion of the capital of the country in which he dwells, is as forgetful of his own advantage as the miller who should endeavour to dry up the mountain-stream which turns the wheels of his machinery, or the farmer who should desire to intercept the sun and the showers which fertilize his fields."

1834. In this year the National Bank of Ireland, now known as the National Bank, was established. It has its head office and some branches in London, and numerous branches in Ireland.

In this year, also, the Agricultural and Commercial Bank of Ireland was established, with its head office in Dublin, and numerous branches in provincial towns; but it was unsuccessful, and having stopped payment in 1836, was afterwards wound up with considerable loss to its shareholders.

1835. In this year the private bank of Messrs. De la Cour and Co. of Mallow, stopped payment. Out of Dublin there is now no private bank remaining in the whole of Ireland.

The banks now existing in Ireland are—

The Bank of Ireland.
The Provincial Bank of Ireland.
The National Bank.
The Northern Banking Company.
The Belfast Bank.
The Ulster Bank.
The Hibernian Bank.
The Royal Bank of Ireland.
The Union Bank of Ireland.
The European Bank.
The Munster Bank.

WATERFORD

LITERARY AND SCIENTIFIC INSTITUTION.

There is no very intimate connection between banking and literature. But as both banking establishments and literary societies have a tendency to promote the interests of Ireland, I shall give a short account of the above Institution. It was intended to be formed upon the plan of the City of London Literary and Scientific Institution, at the formation of which I assisted as a member of the committee. The difficulties of forming such societies in Ireland are by no means so great as may be imagined. Managers of banks are very proper persons to take an active part in their government, as they have considerable influence, and their office compels them to keep aloof from all political parties. When the manager is a literary man, he is well adapted for the office of honorary secretary; and in all cases, his habits of business render him very useful as a member of the committee. With the view of assisting those who may be disposed to engage in the establishment of such associations in Ireland, I shall state the steps which were taken in the formation of the Institution at Waterford, as they are described by its president, Thomas Wyse, Esq, M.P., in a discourse delivered at the close of the first session, April 30, 1833:—

"'The Waterford Literary and Scientific Institution' was formed September 25th, 1832. It owes its establishment, not to the hand of power, forcing into sudden maturity its liberal conceptions—not to the habit of imitation, which naturally and insensibly extends improvement in every civilized community—but to one of those fortuitous concurrences of good intention and resolute will amongst some of our fellow-citizens (from whom I may be permitted, without derogating from the merit of his co-labourers, to select Mr. Gilbart), who happened to meet together, and to express a feeling of regret at the want of such means

of intellectual occupation in Waterford. There was much to deter us—much to deter men of far more sanguine temper than ourselves. We had in Waterford no evidences of former success—no fortunate experiment—no pledges redeemed by performances—no literary institutions (with the exception, perhaps, of the library) which could count beyond a few members and a few years. We were everywhere surrounded by attempts and disappointments; wherever we looked we saw nothing but failures and wrecks. The 'Mechanics' Institute' had begun, and had ended—it had perished from inanition; no successor had arisen from its remains. We were cast, too, on turbulent, or at least on disturbing and absorbing times, when what little shreds of leisure might be within each man's reach—what little surplus of mind or study he could spare, was instantly and peremptorily pressed into other services by the general political conscription. In such a moment, to call from the glorious dust of the forum to the calm obscurity of the Lyceum and the academy, seemed a task worse than hopeless; it was inviting defeat. Others looked on such employment of the popular mind as a diversion from 'the one thing necessary;' the country was not yet ripe for such experiments—it was squandering away, on secondary objects, the energy of the public will. Such was the language of friend and foe—we are willing to believe, of sincere friends and of honest foes—but a better fortune, I rejoice to add, prevailed; other hopes, with other circumstances, and better counsels, soon arose.—We did believe, that in an attempt, however humble, to improve the mental condition of our people, no matter what the ephemeral impediments might be, we should not long be left alone. In that belief we have not been deceived. Another course, more full of honest reliance on your sympathies, was purposed—another course was adopted. A preparatory meeting was held in the Chamber of Commerce, on the 17th of September, 1832, the minutes of which I now hold in my hand.' At that meeting the usual preliminary steps for the organization of the society were taken; resolutions were passed, declaratory of the propriety of establishing such a body in our city; a provisional committee was appointed to carry them into effect; and sub-committees constituted to solicit subscriptions, and to inquire what gentlemen in Waterford would engage to deliver lectures and essays during the ensuing winter. A second meeting, held the 24th of the same month, to receive the support of these sub-committees (which was far more favourable than, under the circumstances, could have been expected), came, in consequence, to the unanimous resolution, to form themselves forthwith into a society, under the name of 'The Waterford Literary and Scientific Institution,' and proceeded immediately to draw up laws and regulations for its future government and support.

"But even then the bodings of despondency had not entirely ceased; we had still to encounter the caution of some, the fears of others, the

indifference of more; the proverbial versatility of our countrymen was hinted—the promptitude with which projects are taken up, surpassed only by the promptitude with which they are thrown down was pleaded—the sharpness of novelty so easily blunted—magnificent promises flaring away into idle conclusions—were successively urged on our attention; we were told to prepare for a gradual dwindling of our numbers—a plucking of feather by feather from our full-fledged wings. Happily, this 'prophecy of evil' was soon belied: we were agreeably surprised by additional reinforcements. In the midst of every distraction, of every excitement, of every drawback, the interest which the Institution had excited rapidly but steadily continued to increase. New lecturers presented themselves; what was more material, there was an audience for every lecturer. The 'still, small voice' of literature and science, the gentle influences of the practical and imaginative arts, were heard and felt through all the dissonance, the '*bella plusquam civilia*' of our election contest. Whatever parties might have been without doors, here, at least, they found neutral ground—here, at least, they parleyed. The ancient fable seemed again exemplified—the wand of Mercury, the god of eloquence, worked again its quiet miracle. It no sooner touched the earth, than the opposed and bristling serpents of civil contention forgot their struggle, and twined amicably around it."

This eloquent discourse enters very fully into the subject of education, especially with reference to the middle classes in the United Kingdom, and it contains a very interesting account of the institutions for public instruction in America.

The following is a copy of the minutes to which Mr. Wyse referred:—

"At half-past seven o'clock, on Monday evening, Sept. 17, 1832, a meeting was held in the Harbour Commissioners' Room, Chamber of Commerce, for the purpose of considering the propriety of forming a society, to be called the 'Waterford Literary and Scientific Institution.' Present—Thomas Wyse, Esq., M.P.; Edward Jones, Esq., M.D.; W. M. Ardagh, James W. Gilbart, Thomas Harris, Thomas Parsons, G. P. Ridgway, William White, and George Wyse, Esqrs.

"It was moved and seconded, that Thomas Wyse, Esq., M.P., be requested to take the chair.

"The chairman fully explained the object of the meeting, and after some discussion, the following resolutions were unanimously adopted:—

"I. That this meeting are convinced of the propriety of establishing a Literary and Scientific Institution, and they now form themselves into a provisional committee, for the purpose of effecting its establishment.

"II. That the members of the provisional committee do solicit the

support of their respective friends, and report the result at a meeting to be held here on this day week.

"III. That a sub-committee of five persons be formed to inquire what gentlemen in Waterford would be willing to engage to deliver lectures and essays to the proposed institution, and that Thomas Wyse, Esq., M.P., Edward Jones, Esq., M.D., James W. Gilbart, Thomas Harris, and Thomas Parsons, Esqrs., do constitute such sub-committee."

Harbour Commissioners' Room, Chamber of Commerce,
September 24, 1832.

Present—Henry Alcock, Esq., Mayor of Waterford; John Archbold, Esq., Sheriff of Waterford; the Rev. Dr. Graham; John Coombe, James W. Gilbart, Thomas Harris, Thomas Kehoe, Thomas Parsons, Joshua W. Strangman, and George P. Ridgway, Esqrs.

It was moved and seconded, that Henry Alcock, Esq., Mayor of Waterford, be requested to take the chair.

James W. Gilbart, Esq., read the minutes of the proceedings of the former meeting.

Thomas Harris, Esq., read the report of the sub-committee appointed to inquire what gentlemen in Waterford would be willing to engage to deliver lectures and essays.

The following resolution was then unanimously adopted:—

"That this meeting do now form themselves into a Literary and Scientific Institution, and proceed to consider the laws necessary for their government."

Resolved—That the following regulations are declared to be the laws of the Institution until the next annual meeting:

1. This Institution shall be named "The Waterford Literary and Scientific Institution."

2. Its object is the circulation of Literary and Scientific Knowledge, by means of Lectures and Essays.

3. It shall be governed by a committee of seven members, chosen by ballot at the general meeting. The president, vice-presidents, treasurer, and secretary shall also, *ex-officio*, be members of the committee. Any three members shall form a quorum.

4. The meetings of the Institution shall be held at eight o'clock every Thursday evening, in the seven months from October to April, both inclusive; and as much oftener as the committee may determine.

5. The subjects discussed shall be purely literary, or scientific, excluding all topics connected with modern politics or controversial theology. Any member introducing such topics shall be called to order by the chairman, and may be admonished or expelled by the committee.

6. A new member must be proposed by three members, and admitted by ballot—one black ball in four shall exclude.

7. The subscription from each member shall be 2*l.* per annum, payable in advance on the first Thursday in October. A payment of 5*l.* shall constitute a member for life.

8. On payment of his subscription, each member shall receive from the treasurer a ticket for himself and his family, and three transferable tickets, each admitting two of his friends; a transferable subscription ticket, admitting two persons to the lectures for the session, may also be obtained by non-members, upon the payment of 10*s.*; and a ticket, admitting one person for the night, may be obtained on payment of 1*s.*

9. The funds of the Institution shall be employed chiefly in providing a place of meeting, and in purchasing such philosophical instruments as may be necessary to elucidate the subjects discussed.

10. A general meeting shall be held on the first Thursday in May, to receive the report of the committee, and to elect officers and a committee for the ensuing year.

Resolved—That the following gentlemen be most respectfully solicited to act as Patron, President, Vice-President, Treasurer, Secretary, and Committee for the year ensuing:—

Patron—The Right Hon. Sir JOHN NEWPORT, Bart., M.P.
President—THOMAS WYSE, Esq., M.P.

Vice-Presidents.

Right Rev. Dr. ABRAHAM, R.C., Bishop of Waterford and Lismore.
Very Rev. USSHER LEE, Dean of Waterford.
HENRY WINSTON BARRON, Esq., Deputy-Lieutenant.
PIERSE GEORGE BARRON, Esq.
WILLIAM CHRISTMAS, Esq.

Treasurer—JOSHUA WILLIAM STRANGMAN, Esq.
Honorary Secretary—JAMES WILLIAM GILBART, Esq.

Committee of Management.

The Rev. Dr. GREHAM.
EDWARD JONES, M.D.
Rev. RICHARD RYLAND.
JOHN ARCHBOLD, Esq.
THOMAS HARRIS, Esq.
THOMAS PARSONS, Esq.
GEORGE P. RIDGWAY, Esq.

The meeting then adjourned to Tuesday, the second day of October.

The following is a list of the lectures and essays delivered before the members and the friends of the Institution, in the session of 1832-3.

Thursday, October 4.—A Lecture on Education, by Thomas Wyse, Esq., M.P.

Thursday, 11.—Essays on the Science of Optics. First Essay—The Theory of Vision, by Thomas Harris, Esq. Second Essay—Illustrations

of the Anatomy of the Eye, by Edward Jones, M.D. Third Essay—The means of Preserving the Sight, by James W. Gilbart, Esq.

Thursday, 18.—A Lecture on the Origin of Italian Poetry, by Thomas Wyse, Esq.

Thursday, 25.—Essays on Agricultural Economy. First Essay—The Management of Bees, by Thomas Parsons, Esq. Second Essay—The Construction of Cottages, by Joshua W. Strangman, Esq. Third Essay —The Agriculture of the West of England, by James W. Gilbart, Esq.

Thursday, Nov. 1.—A Lecture on Vegetable Physiology, by Edward Jones, M.D.

Thursday, 8.—A Lecture on the Philosophy of Language, by James W. Gilbart, Esq.

Thursday, 15.—A Lecture on the different Degrees of Warmth produced by White and Black Clothing, by Thomas Parsons, Esq.

Thursday, 22.—A Lecture on Ancient Architecture—Oriental Architecture, by Thomas Wyse, Esq.

Thursday, 29.—A Lecture on Geography, by Joshua W. Strangman, Esq.

Thursday, Dec. 6.—A second Lecture on Vegetable Physiology, by Edward Jones, M.D.

Thursday, 13.—A second Lecture on Geography, by Joshua W. Strangman, Esq.

Thursday, 20.—A Lecture on Establishments for the Insane, by Edward Jones, M.D.

Thursday, Jan. 3, 1833.—A Lecture on Ancient Commerce—the Commerce of Ancient Egypt, by James W. Gilbart, Esq.

Thursday, 10.—A Lecture on Elementary Instruction, by Joshua W. Strangman, Esq.

Tuesday, 15.—A third Lecture on Vegetable Physiology, by Edward Jones, M.D.

Thursday, 17.—A second Lecture on Ancient Architecture—Grecian Architecture, by Thomas Wyse, Esq.

Tuesday, 22.—A fourth Lecture on Vegetable Physiology, by Edward Jones, M.D.

Thursday, 24.—A Lecture on the Study of Man, by William Connolly, M.D.

Tuesday, 29.—A fifth Lecture on Vegetable Physiology, by Edward Jones, M.D.

Thursday, 31.—A second Lecture on Ancient Commerce—the Commerce of Ancient Greece, by James W. Gilbart, Esq.

Tuesday, Feb. 5.—A Lecture on Pneumatics, by J. W. Strangman, Esq.

Thursday, 7.—A third Lecture on Ancient Architecture—Roman Architecture, by Thomas Wyse, Esq.

Tuesday, 12.—A second Lecture on Pneumatics, by Joshua William Strangman, Esq.

Thursday, 14.—A second Lecture on the Study of Man, by William Connolly, M.D.

Tuesday, 19.—A Lecture on Scientific Terms, by James W. Gilbart, Esq.

Thursday, 21.—A Lecture on Navigation, by Thomas Parsons, Esq.

Tuesday, 26.—A Lecture on the Chemical Properties of the Atmosphere, by Edward Jones, M.D.

Thursday, 28.—A fourth Lecture on Ancient Architecture—Byzantine, or Corrupt Roman Architecture, by Thomas Wyse, Esq.

Tuesday, March 5.—A Lecture on the Chemical Properties of Water, by Edward Jones, M.D.

Thursday, 7.—A third Lecture on Ancient Commerce—the Commerce of Tyre and Carthage, by James W. Gilbart, Esq.

Tuesday, 12.—A Lecture on Mechanics, by Thomas Parsons, Esq.

Thursday, 14.—A third Lecture on the Study of Man, by William Connolly, M.D.

Tuesday, 10.—A second Lecture on Mechanics, by Thomas Parsons, Esq.; and a Lecture on Mnemonics, by Joshua W. Strangman, Esq.

Thursday, 21.—A Lecture on Law—particularly in reference to the Rights of the Female Sex, by William Hughes, Esq.

Tuesday, 26.—A Lecture on the Advantages of Science, by the Rev. R. Ryland.

Thursday, 28.—A fourth Lecture on Ancient Commerce—the Commerce of Ancient Rome, by James W. Gilbart, Esq.

Tuesday, April 2.—A Lecture on Hydrostatics, by Joshua W. Strangman, Esq.

Thursday, 4.—A Lecture on Physiology, by Thomas Kehoe, Esq.

Tuesday, 9.—A third Lecture on Mechanics, by Thomas Parsons, Esq.

Thursday, 11.—A fifth Lecture on Ancient Commerce—the Commerce of the Ancients with the East Indies, by James W. Gilbart, Esq.

Tuesday, 16.—A Lecture on Hydraulics, by Joshua W. Strangman, Esq.

Thursday, 18.—A Lecture on the Commerce of Waterford, by James W. Gilbart, Esq.

Tuesday, 23.—A fourth Lecture on Mechanics, by Thomas Parsons, Esq.; and a Lecture on Harbour Surveying, by Sampson Carter, Esq.

Thursday, 25.—A Lecture on Optics, by Rev. R. Ryland.

Tuesday, 30.—A Concluding Address, upon the Transactions of the Session, by Thomas Wyse, Esq.

Syllabus of a Course of Lectures on Ancient Architecture, by Thomas Wyse, Esq., M.P.

LECTURE I.—*Oriental Architecture.*—Thursday, Nov. 22, 1832.—Introduction. Definition of Architecture. Erroneous Ideas. Architecture

traceable, like all other arts, to the Wants of Mankind. These wants created and modified by circumstances, such as climate, organization, occupation, habits, laws. These circumstances divide Mankind into two great Classes, or Races—the Pastoral, or Wandering—and the Agricultural, or Fixed. Their wants and arts distinct—particularly remarkable in their Architecture. Chief objects of Architecture—Dwellings, Tombs, and Temples. 1st.—Dwellings of the Pastoral Races. Their Tombs—Origin of the Tumulus, or Barrow. Their Temples—Altars, Platforms—Sacred Groves—the High Places of the Scriptures. Illustrations, in Syria, Chaldea, Scythia, &c., &c. 2nd.—Dwellings of the Agricultural Races—in mountainous districts—Egypt, Ethiopia, Palestine, Persia, &c., and in flat countries—Plains of Babylon, &c., &c. Their Tombs, Hypogœa of Egypt, Palestine, Persia, Asia Minor. Built Tombs—the Pyramids—Mausolea of India, &c.—Their Temples—Temples of Egypt and Ethiopia. Excavated—Dehr, Kalapshi, Ipsambol, &c. Built—Karnak, Eshne, Dendera, &c. Epochs and Character of Egyptian Architecture. Phœnician Architecture. Jewish Architecture—Temple of Solomon—Baalbek, &c. Arabian Architecture—Petra, &c. Indian—Ellora, &c. Chinese, &c. Resemblance and connection of Oriental Architecture.

Lecture II.—*Grecian Architecture.*—Thursday, January 17, 1833.—Progress of Mankind Westward. Arts travel with them. Communication of Egypt and the East with Phœnicia, and of Phœnicia with Greece. Architecture introduced into the Islands—into Greece Proper. Affected by new circumstances of Climate, Manners, Laws. Grecian Houses—Towns—their distribution—the Citadel, Agora, Gates, Walls, &c., &c. Grecian Tombs—Hypogœa—Mausolea—Sarcophagi—Grecian Temples—their distribution and decoration. Other Grecian Buildings—Theatres—Basilicæ—Palœstræ, &c., &c. Recapitulation.

Lecture III.—*Roman Architecture.*—Thursday, February 7, 1833.—Obvious connection between Grecian and Roman Art. Grecian Colonies in Italy—Etruscans. Influence on the Romans—on their Architecture especially. Architecture under the Kings—under the Republic—under the Empire. From Augustus to Hadrian, the golden age of Roman Architecture. Roman Houses—Villas—how differing from the Grecian. Roman Cities — their internal and external arrangement. Roman Tombs. Roman Temples—compared with the Grecian. Roman Theatres—Amphitheatres—Naumachiæ, &c. Roman Bridges—Aqueducts—Baths. Roman Triumphal Monuments—Arches—Pillars. Other Roman Buildings—Libraries, Porticos, &c., &c. General remarks.

Lecture IV.—*Byzantine, or corrupt Roman Archictecture.*—Thursday, February 28, 1833.—Reign of the Antonines. Irruption of the Barbarians. Gradual degeneracy in all the Arts. Architecture especially affected. Reign of Constantine—Transfer of the seat of Empire to Byzantium, or Constantinople. Distribution and decoration of the new

City. Conversion of Ancient Temples and Basilicæ to Churches. Spoliation and dilapidation of Ancient Monuments—Application of their Manufactures to new — Injurious results. Universal corruption of Roman Architecture, in arrangement and details. Partial Reform under Justinian—insufficient to check the increasing abuses. Confusion of all principles. General Barbarism. Elements of a new Architecture in the midst of this confusion. Conclusion. *

Syllabus of a Course of Lectures on Ancient Commerce by James William Gilbart, Esq.

LECTURE I.—*The Commerce of Ancient Egypt.*—Thursday, January 3, 1833.—Origin of Commerce. History of Egypt. Productions—Corn—Linen—Horses—Paper. Consumption—Food—Dress—Houses—Embalming. Situation—Trade with the Phœnicians—Judea—Arabia—India. Means of Communication—Roads—Canals—Ships. Arts and Sciences—Computation—Money. Commercial Laws—Casts—Imprisonment for Debt—Female Traders—Trial after Death. Commercial Character of the Egyptians.

LECTURE II.—*The Commerce of Ancient Greece.*—Thursday, January 31, 1833.—Origin of Civilization. Commercial position of Greece. Security of Private Property—Attica—Sparta. Administration of Justice—Laws referring to Trade. Establishment of Cities—Proper situation for Commercial Cities—Athens—Corinth—Syracuse. Markets and Fairs—Festivals. Ancient Legislation with regard to Fairs. Money—Coin—Bankers—Rise and Progress of Banking. Commercial Character of the Greeks.

LECTURE III.—*The Commerce of Tyre and Carthage.*—Thursday, March 28, 1833.—Origin of Navigation. Rise of Tyre and Carthage. Influence of Navigation on Commerce—Advantages of an Insular Situation—Ships of the Ancients—Long Voyages—Carrying Trade. Manufactures—Weaving—Dyeing—Working of Metals—Pottery—Tanning. Colonies—Colonial Trade—Rate of Wages—Emigration. Accumulation of Capital—Credit—Bottomry—Partnerships—Joint-Stock Companies. Commercial Character of the Carthaginians.

LECTURE IV.—*The Commerce of Ancient Rome.*—Thursday, March 28, 1833.—Origin of Agriculture. Characteristics of an Agricultural and a Commercial State of Society. Agriculture of the Romans—Influence of Agriculture on Commerce. Wars of the Romans—Influence of War upon Commerce. Slavery of the Romans—Influence of Domestic Slavery upon Ancient Commerce. Conquests of the Romans—Influence of extended Empire upon Commerce—Principles of Free Trade. Roman Money—Copper the Standard of Value—Depreciation of the Currency—

* In the second session of this Institution, Henry Winston Barron, Esq., M.P., delivered some valuable lectures upon agriculture.

Bankers. Roman Roads—Transmission of Letters. Marine Insurance —Assurance of Lives. Commercial Character of the Romans.

LECTURE V.—*The Commerce of the Ancients with the East Indies.*—Tuesday, April 11, 1833.—Origin of Luxury. India—Its Social Institutions. Productions—Spices—Silks—Aromatics—Precious Stones—Fruits. Indian Commerce previous to the time of Alexander the Great. Conquests of Alexander. Alexandria founded. Conquest of Egypt by the Romans—Silk sold at Rome for its weight in gold. Conquest of Egypt by the Mahometans. Importation of Silkworms into Europe. Discovery of the Passage to India by the Cape of Good Hope. Exportation of Bullion—Principles of the Foreign Exchanges. Sketch of the History of the Indian Trade to the present day. Conclusion.*

I copy the following article from the Waterford papers of October 31, 1833:

WATERFORD LITERARY AND SCIENTIFIC INSTITUTION.

At a general meeting of the Waterford Literary and Scientific Institution, held at the Chamber of Commerce, on Wednesday, 23rd October, 1833; THOMAS WYSE, Esq., President, in the Chair:

The following resolutions were unanimously adopted:—Moved by Mr. Harris, seconded by Mr. Mason—

1. That in accepting the resignation of James William Gilbart, Esq., late Honorary Secretary of this Institution (rendered unavoidable by his immediate return from this city to London), we cannot but express our deep sense of his numerous services to this society, and willingly tender him our best thanks for having mainly contributed to its original formation, and for the constant zeal and ability he displayed in the discharge of the duties of his arduous office.

* "But this was only a small portion of Mr. Gilbart's important services. You have already heard me refer, in terms of merited eulogium, to the active part which he bore in the founding of our Institution—an activity exceeded, if possible, by the intelligence, assiduity, and perseverance which he brought to its subsequent management; but, great as these contributions undoubtedly were, they were fully rivalled by his zealous literary support. There are few in this room who have not attended his excellent lectures on 'Ancient Commerce.' I feel what a train of agreeable and elevating associations I excite by merely mentioning their name. The judicious arrangement, the happy spirit of analysis, the discriminating selection and classification of facts, the wise deduction of principles, leading to views the noblest and loftiest, but at the same time the most practical and useful to society—all this, too, conveyed in language claiming the applause of the instructed, but not beyond the grasp of the ignorant—was not only a complete redemption of our original promises, but, I do think, the best practical illustration and most complete recommendation we could possibly offer of the pleasures and utilities of such institutions as this."—*Mr. Wyse's Discourse.*

Moved by Mr. Davis, seconded by Mr. Strangman—

2. That the above resolution be communicated by our President to Mr. Gilbart, and published in the Waterford papers.

Waterford, October 26, 1833.

Dear Sir,

I am directed by the Waterford Literary and Scientific Institution, in pursuance of a resolution passed at their last general meeting, to communicate to you the accompanying "*vote of thanks,*" on the occasion of your resignation of the office of Secretary.

Permit me to add to this public expression of regret and gratitude, my own personal acknowledgments for the numerous and valuable benefits you have conferred, by your activity, perseverance, and superior experience on our infant Institution. Under very difficult and discouraging circumstances you gave it in great part its original constitution, and watched it with an unabated solicitude to its present vigorous condition. I feel, in common with all our fellow-members, how difficult it will be to supply the place of such qualities and exertions; but we trust that, in leaving this country, you will not also leave behind you all anxiety for our advancement—that you will retain, as far as new circumstances and more pressing objects may permit you—an interest in our improvement, and from time to time will give us the advantage of your more extended observation, in proportion as opportunities may offer, or the exigencies of our position may require. While expressing such a hope, I am sensible, at the same time, that it is almost unnecessary. You are too deeply impressed with our wants, and have already evinced too strong a concern in our progress, for us to question a continuance of your exertions. You take with you our best wishes for your happiness and prosperity in your new circle; and whatever may be the future fortunes of our society, we shall never forget how much it is indebted for what has already been enjoyed, to the efforts and intelligence of its first Secretary.

I beg you to believe me,

Dear Sir,

Very sincerely, yours always,

Thomas Wyse, *President.*

To James William Gilbart, Esq., late Hon. Secretary of the Waterford Literary and Scientific Institution.

Provincial Bank of Ireland, Waterford, October 28, 1833.

Dear Sir,

The resolutions passed at the last general meeting of the Waterford Literary and Scientific Institution, and the letter which accompanied them, have afforded me high gratification—not only as they are tokens of personal respect from gentlemen whom I greatly

esteem, but as they denote a continued regard for that Institution in whose formation and progress I zealously laboured.

My own exertions, however, were chiefly useful as the means of calling forth the exertions of others. It is to the early patronage and the eloquence of our President—to the generous co-operation of our excellent Lecturers—to the character and respectability of our members—and to the interest taken in our proceedings by the public, especially by the ladies of Waterford, that we are indebted for our success.

I shall be most happy at all times to render the Institution any service in my power, and I trust that not only will its future progress be marked by increasing prosperity, but that it will become instrumental in the formation of similar institutions in the neighbouring towns.

I am,
Dear Sir,
Truly and respectfully yours,
J. W. Gilbart.

Thomas Wyse, Esq., President of the
Waterford Literary and Scientific Institution.

AN INQUIRY INTO THE CAUSES

OF

THE PRESSURE ON THE MONEY MARKET

DURING THE YEAR 1839.

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A PRESSURE on the money market may be defined to be a difficulty of getting money in the London market, either by way of discounting bills, or of loans upon government securities. This difficulty is usually accompanied by an unfavourable course of exchange, a contraction of the circulation of the Bank of England, and a high rate of interest. These three circumstances bear the relation to each other of cause and effect. The unfavourable course of exchange induces the Bank of England to contract her circulation, and the contraction of the circulation, by rendering money more scarce, increases its value, and leads to an advanced rate of interest. The removal of the pressure is in the same order—the foreign exchanges become favourable—the Bank of England then extends her circulation, money becomes more abundant, and the rate of interest falls. The degree to which the exchanges are unfavourable is indicated by the stock of gold in the Bank of England; and when this is at its lowest amount the pressure may be considered to have attained its extreme point, for as the amount of gold increases, the bank will extend her circulation and the pressure will subside.

The pressure of 1836 may be said to have commenced from the month of May in that year. From that month the stock of gold in the bank gradually and uniformly declined until February 1837, when it reached its lowest point of depression. From this point it uniformly advanced: the lowest

point of the circulation was in December 1836, though even then it was not lower than it had been in the preceding January. The bank raised the rate of interest from 4 to 4½ per cent. in July, and to 5 per cent. in the following September. During the whole of the year 1837, the amount of gold in the Bank of England continued to increase; the bank extended her circulation, and after the payment of the July dividends, money became very abundant, and the market rate of interest experienced a considerable fall. The foreign exchanges continued to be favourable during the early part of 1838, and gold accumulated in the coffers of the Bank of England. In the spring of that year the directors of the Bank of England sent nearly a million of gold to America. Money became increasingly abundant and the rate of interest fell. In February the bank reduced their rate of discount to 4 per cent., and the interest on the loans granted during the shutting of the funds, was reduced in March to 3½ per cent. The low rate of interest caused large sums of money to be invested in American securities. Bonds of all kinds issued by the Bank of the United States, by the various states in the Union, and by numerous private undertakings, were poured upon the English market and found eager purchasers. Several of the directors of the Bank of England, in their individual character as merchants, became agents for the distribution of these securities. About July the exchanges became unfavourable, and in the latter part of the year some symptoms of uneasiness were apparent in the money market, but as the stock of bullion in the Bank of England was considerable, and the directors granted their usual loans in December at 3½ per cent., public confidence was not shaken. In the beginning of the year 1839 the exchanges became increasingly unfavourable, and the monthly returns of the bank showed a gradual diminution in the stock of gold. The price of corn rose so high as to admit of foreign wheat at the lowest rate of duty. This occasioned a further demand for gold to be exported. The stock of gold in the Bank of England rapidly declined until, in the month of October, it was no more than 2,525,000*l.*, while the liabilities of the bank upon notes

amounted to 17,612,000*l.*, and upon deposits to 6,734,000*l.* The bank directors were very anxious to stop this demand for gold. With this view they raised the rate of interest on May 16th to 5 per cent., on June 20th to 5½ per cent., and on August 1st to 6 per cent.; and they charged the same rate upon their short loans. They are supposed to have sold large amounts of government stock and exchequer bills, and on July 13th they announced that they were ready to receive proposals for the sale of the dead weight. None of the offers, however, met their approbation. Finding these measures not speedily effective, an arrangement was made with the Bank of France for a loan of 2,500,000*l.* Messrs. Baring and Co. drew bills on account of the Bank of England upon houses in Paris for this amount, which the Bank of France undertook to discount. The directors also determined to refuse to discount any bills drawn or endorsed by any private or joint-stock bank of issue. Notwithstanding these measures the stock of gold in the bank continued to decrease until the 18th October, when it reached the lowest point of depression. From this point it continued to advance, and the pressure began gradually, but slowly, to subside.

It may be useful to notice the differences between the pressure of 1836 and that of 1839. If we measure the intensity of the pressure by the difference between the largest and the lowest stock of gold in the Bank of England, the former pressure will range from 7,801,000*l.* to 4,032,000*l.*, and the latter from 10,126,000*l.* to 2,525,000*l.* In the pressure of 1836, one joint-stock bank, a London private bank, two country private banks, three large American agency houses, and a great many respectable merchants, stopped payment. In the pressure of 1839 there was scarcely a failure until the month of December, and then only among the second class of traders.—In the pressure of 1836 the prices of nearly all commodities fell considerably, and almost immediately. In the pressure of 1839 the prices of most commodities remained for a length of time nearly the same.—In 1836 the Bank of England did not raise their rate of interest above 5 per cent. In 1839 the rate of interest upon both discounts and loans

was raised to 6 per cent. In 1839 the bank gave notice that they were willing to sell the dead weight, and they made arrangements for borrowing 2,500,000*l.* sterling from the Bank of France. In 1836, the bank adopted neither of these measures.—In 1836, the Bank of England rejected all bills drawn or endorsed by joint-stock banks of issue. In 1839, they rejected also all bills drawn and endorsed by private banks of issue.

Having thus given a sketch of the transactions of 1837, 1838, and 1839, as far as respects the recent pressure on the money market, we shall now endeavour to inquire into its causes. And here we feel no hesitation in saying, that in our judgment the pressure of 1839 was produced by the abundance and cheapness of money that existed in 1837 and 1838, and that this abundance and cheapness of money were produced by the measures of the Bank of England.

If it be necessary to prove that money was abundant and cheap in 1838, we need only appeal to the recollection of bankers and money dealers, and ask them what amount of bills they discounted at 2¼ per cent., and how often they locked up with large sums of money which they were unable to employ; and we need only refer to the prices of exchequer bills, which in the month of July were above 80*s.* premium. To show that this abundance of money was produced by the Bank of England, we need only refer to the amount of the circulation of the Bank of England in 1838, as compared with that of the preceding years.

The average amount of notes in circulation during the year

	£
1836 was	17,814,000
1837 „	18,276,000
1838 „	18,923,000

And it should be recollected that the former part of the year 1836 was a period of considerable excitement; but in consequence of the pressure in the latter end of that year, trade had become almost stagnant in 1837, and possessed but little activity in the year 1838. Thus the increase in the

circulation of the Bank of England took place when it was not required; and it was not only abundant from the positive increase of notes in circulation, but it was relatively still more abundant as compared with the demand. In confirmation of these views, we may refer to the circulation of the country banks, which we consider a fair indication of the state of domestic trade.

The average circulation of the private and joint-stocks during the year

	£
1836 was	11,848,539
1837 „	10,728,921
1838 „	11,565,616

Thus we see that, while the circulation of the Bank of England increased in 1837, and still further increased in 1838, the country circulation experienced a considerable contraction in 1837, and even in 1838 was less in amount than it had been in 1836, notwithstanding it must in 1838 have experienced a stimulus from the advanced price of corn. But the bank directors not only made money abundant by their increased issues, but they also made it cheap by reducing the rate of interest. Now this measure has the effect of still further increasing the amount of notes in circulation, and also of lowering the market rate of interest. For it must be observed, that when the bank lowers her rate of interest upon money in seasons of abundance, it has the necessary effect of reducing the market rate of interest still lower than the bank rate. Suppose, for instance, the bank discounts at 5 per cent., and the market rate of discount is 4 per cent., of course no bills are offered for discount to the bank. Then the bank, to get discounts, lowers her rate of interest to 4 per cent. A portion of bills that were previously discounted by private bankers and bill-brokers will then be taken to the bank; but the notes thus drawn from the bank make money still more plentiful, and the market rate falls to $3\frac{1}{2}$ or 3 per cent. Now, should the bank reduce her rate to 3 per cent., the same effects would again follow. For the additional notes thus drawn out would make money so abundant as to

reduce the market rate of interest to $2\frac{1}{2}$ or 2 per cent., and so on.

If we take a review of all the recent pressures on the money market, we shall find they have always been preceded by the following circumstances:—First, abundance of money. In the years 1824 and 1825 the Bank of England lent money upon the security of government stock and upon mortgages, by which a large amount of notes were put into circulation. In the end of 1825 came the memorable panic. Again, in 1834, the average circulation of the Bank of England was 18,806,000*l.*, and in 1835 it was 19,194,000*l.* This preceded the pressure of 1836; and again, as we have seen, the circulation of the bank was increased in 1837 and 1838, and then followed the pressure of 1839. Secondly, a pressure is always preceded by a low rate of interest. This is the necessary effect of its abundance; and, in our opinion, the rate of interest is a better criterion of the abundance of money than a comparison of the several amounts of notes in circulation at particular periods; for the price of a commodity is, in most cases, the best index of its scarcity. *Abundance* is merely a relative term. If the supply of money be greater than the demand, however small that supply may be, money is abundant, and the rate of interest will consequently be low. And, on the other hand, if the demand for it be greater than the supply, however ample that supply may be, money is scarce, and the rate of interest consequently high. Without referring to the actual quantity of money in circulation in the years preceding the panics, we may state as a matter of fact, that in those years there has uniformly been a reduction in the rate of interest. In the year 1822 the Bank of England reduced the rate of interest from 5 to 4 per cent.; and as a further proof of the low rate of interest, we may state that in the same year the government reduced the interest upon the Navy 5 per Cent. stock from 5 to 4 per cent., and in 1824 the Old 4 per Cents. were reduced to $3\frac{1}{2}$ per cent. In the year 1834, the rate of interest was so low that the government were enabled to reduce the stock called "4 per Cent., 1826," from 4 to $3\frac{1}{2}$ per cent. And in August, 1835, the

bank granted loans at $3\frac{1}{2}$ per cent., and these loans were continued by subsequent renewals to January, 1836. Again, in the year 1838, the Bank of England reduced the rate of discount from 5 to 4 per cent., and granted temporary loans at $3\frac{1}{2}$ per cent. It will be seen, then, that all our panics have been preceded by a low rate of interest. Thirdly, besides an abundance of money and a low rate of interest, our panics have usually been preceded by some species of speculative investments. This is almost a necessary effect of the cheapness of money. In 1824 the favourite investments were the foreign loans. In 1836 railways, joint-stock banks, and other companies, chiefly for domestic improvements, and in both these periods there was also a considerable degree of mercantile speculation. But in 1838 there appears to have been no mercantile speculation of any consequence; for the purchasers of foreign corn were justified by the result, and the cotton speculations, if excessive, were confined to Liverpool. In fact, this year exhibited an abundance of money with an almost stagnant state of trade, and the absence of a spirit of speculation. But when the rate of interest is low, people will naturally look out for investments that will yield a higher interest. The American bonds seemed to hold out the prospect of a higher rate of interest and no risk. Hence, English property to a large amount was invested in those securities.

The principles we have advanced are acknowledged to be correct by the directors of the Bank of England themselves, as far at least as their sentiments are represented by Mr. Horsley Palmer. In his pamphlet on "The Causes and Consequences of the recent pressure on the Money Market," published in 1837, Mr. Palmer attributed that "pressure" to the excessive issues of the joint-stock banks, and to the investments in foreign funds. Without staying to inquire into the accuracy of the facts, we may consider the accusation as a proof that in the opinion of Mr. Palmer an excessive issue of notes has a tendency to render the foreign exchanges unfavourable, and that the same effect is produced by foreign investments. If an excessive issue of notes by the joint-stock

banks rendered the exchanges unfavourable in 1836, would not an excessive issue of notes by the Bank of England have a tendency to produce at least an equal effect in 1839? If loans to Don Pedro and importations of Spanish Bonds in 1835 led to the pressure of 1836, would not an importation of American securities in 1837 and 1838 have a similar result? The ultimate security of the advances may be different, but the immediate effect on the money market must be the same. And yet, in opposition to the principles laid down by Mr. Palmer, the Bank of England adopted the course which, in other parties, he had so strongly condemned, for year after year they increased the issues of their notes, and consequently drove capitalists to invest their funds in foreign securities.

It may be contended, on the part of the bank directors, that the pressure of 1839 was produced by the unfavourable harvest of 1838. We believe no such thing. The abundance and cheapness of money, and the consequent investments in foreign securities, must have produced a pressure, had the harvest of 1838 been ever so productive. Had we no occasion to import foreign corn in 1838 and 1839, the abundance and cheapness of money would have no doubt continued, commercial speculation would not long have been confined to cotton, but would have extended to every branch of trade, speculations of all kinds would have been urged upon the public attention, and investments in foreign securities would have been augmented. The bad harvest of 1838 precipitated the pressure, and thus *possibly* rendered it *less* destructive. On the other hand, if the Bank of England had not produced a derangement of the circulation, the investments in foreign securities would not have taken place, and the gold thus abstracted might have been employed in making the payments for the importations of foreign corn, and no pressure have been produced. We have had before now scanty harvests and foreign importations, without any derangement of the currency. And, on the other hand, we have had pressures on the money market without any importations of foreign corn. The effect, then, as we believe,

of the scanty harvest of 1838, was merely to accelerate the pressure, by producing in 1839 what the measures of the bank would certainly have produced by 1840.

Here, then, gentle reader, you have the cause of the pressure on the money market during the year 1839. It was occasioned by the bank directors putting out too many notes, thus making money too abundant and too cheap, and causing large investments in foreign securities. But you will ask, "How came the directors to do this? Did they not know what would be the consequences of their conduct? What have they to say in their defence?" Why, they will say that in 1837 and 1838 the foreign exchanges were favourable, and brought them a large amount of gold, and having so much gold in hand, they issued more notes; but that in 1839 the foreign exchanges were unfavourable, and took away their gold, and hence they withdrew their notes. And they will tell you that this is the rule they go by—always to put out notes when the exchanges are favourable, and to pull them in when the exchanges are unfavourable; and this they call regulating the currency by the foreign exchanges.

We may observe that this doctrine of regulating the currency by the foreign exchanges is altogether of modern date. It was first announced as a rule of the bank by Mr. Horsley Palmer, in his evidence before the parliamentary committee in the year 1832. It was new and simple, and obtained ready currency with the political economists. But Mr. Palmer's own faith in the doctrine appeared to waver considerably in the year 1837. He acknowledged that it failed in 1836; that it was not adapted for extraordinary seasons; and that if parliament would vote it to be erroneous, the bank directors would readily abandon it. "If," he states, "there exist any well-founded reasons for supposing that the principle explained in the evidence of 1832, and acted upon by the bank, is not sound—or that the proportion of one-third of bullion, with reference to the liabilities of the bank, at the period of a full currency be not sufficient, it merely remains for parliament to express an opinion upon

either of these points, and there can be no question but that the bank would immediately regulate its course accordingly." Colonel Torrens affirms this doctrine very decidedly in his letter to Lord Melbourne, published in 1837. He states,—"It is universally admitted by persons acquainted with monetary science, that paper money should be so regulated as to keep the medium of exchange of which it may form a part, in the same state with regard to amount and to value, in which the medium of exchange would exist were the circulating portion of it purely metallic. Now it is self-evident that if the circulating currency were purely metallic, an adverse exchange, causing an exportation of the metals to any given amount, would occasion *a contraction of the circulating currency to the same amount,* and that of a favourable exchange, causing an importation of the metals to any given amount, would cause *an expansion of the circulating currency to the same amount.*" Mr. Loyd* also assumes the doctrine to be true, and hence he proves most unmercifully that the bank directors have not adhered to their own principles. Speaking of the bank, he says,—"As a manager of the currency, it is undoubtedly a sound rule by which to guide itself, that against the amount of notes out, it shall hold at its disposal securities and specie; that the amount of securities shall be invariable, and that consequently *all fluctuations in the amount of notes out shall be met by a corresponding fluctuation in the amount of specie in deposit.* Thus the public, and not the bank, will be made the regulators of the amount of the circulation, and that amount will by this principle be made to fluctuate precisely as it would have fluctuated had the currency been purely metallic." "The rule ought to be that *the variations in the amount of the circulation shall correspond to the variations in the amount of bullion,* and the adherence of the bank to this rule ought to be obvious upon the face of the published accounts." Mr. Norman, the bank director, contends that the foreign exchanges are the only safe guide for regulating the currency; and though he blames the joint-stock banks for not observing this rule, yet he does not admit that it is

* Now Lord Overstone.

binding upon the Bank of England to the extent to which it is insisted upon by Colonel Torrens and Mr. Loyd. He appears to coincide with Mr. Horsley Palmer, whom, however, he defends rather in the language of apology than support. We must not, therefore, suppose that all the writers who contend that the currency ought to be governed by the foreign exchanges, entertain precisely the same opinions as to the rules by which this principle ought to be applied, or the means by which it should be brought into operation. They all, however, agree in this—that when the foreign exchanges are favourable, the circulation of notes ought, on that account, to be increased; and when the exchanges are unfavourable, the circulation ought, on that account, to be diminished. We question the soundness of both these propositions.

We are ready to admit that if an improvement in the state of trade should be contemporaneous with a favourable state of the exchanges, the currency will be increased to meet the increased demand. And in this case, notes will be drawn out of the bank, either by operations on the current accounts or by discounts. But we contend that when no such demand exists, the Bank of England ought not to increase her issues of notes merely because she has more gold or silver in her vaults. At present, when a favourable course of exchange causes bullion to be imported, it is sold to the Bank of England in exchange for her notes. These notes are thrown into circulation whether required by the wants of the community or not, and tend immediately to increase prices, lower interest, excite speculation, and promote investments in foreign securities. There is no Act of Parliament requiring the bank thus to purchase bullion. It is her own voluntary act, and she is, therefore, chargeable with all the evils it produces.

The great objection to this doctrine of regulating the currency by the foreign exchanges is, that it causes a perpetual fluctuation in prices. When the exchanges are favourable, more notes are thrown into circulation, and prices advance. When the exchanges are unfavourable, the notes are with-

drawn, and prices fall. And, gentle reader, mark you this—that if the increase of the notes in circulation amount to, say one-tenth, it will cause an increase of more than one-tenth in the prices of commodities; and, on the other hand, if the circulation be diminished one-tenth, the fall of prices will be more than one-tenth. Thus, if the circulation be 20,000,000*l.*, and it be first raised to 22,000,000*l.*, and afterwards reduced to 18,000,000*l.*, the scale of prices will vary over a wider range, and from the highest to the lowest point the difference will be very considerable. Now mind, that in contending that this doctrine must produce a perpetual fluctuation of prices as the exchanges may vary, we are not ascribing to it any effects which its advocates do not acknowledge. Nay, they contend that we ought to produce these fluctuations—that when gold accumulates in the Bank of England, we ought to put out more notes, for the express purpose of causing an advance of prices, and thus driving the gold out of the country; and that when the gold is going out of the country, we ought to pull in the notes, for the express purpose of producing a fall in prices, and thus of bringing the gold back again. And they contend, moreover, that the plan of making prices rise and fall in this way, as the exchanges may turn, is the best possible way of managing the currency, and, in fact, the only "sound principle" on which it can be managed.

Now we contend that this perpetual fluctuation of prices is a great evil. We will specify a few cases. Look at it with reference to trade. The profits of trade depend upon the difference between the buying and the selling prices of commodities, and all the calculations of trade are founded upon this difference of price. But a merchant may import a cargo of goods, and when they arrive the circulation may be in a state of contraction, and the selling price of his goods may be so much below his calculation, that he may be involved in a serious loss. A tradesman may lay in a stock of goods in his shop with the fairest prospect of selling them at a profit, but the foreign exchanges become unfavourable, and the prices of his goods fall so much below the prime cost,

that he is driven into the Gazette. A manufacturer may erect new mills upon the calculation of deriving a large profit from his increased business, but the rate of interest is advanced, and he finds that in proportion as he extends his business he increases his losses. He therefore dismisses his workmen, and discontinues his operations. And this is not the worst. Even in cases where the trader would be willing to sell at losing prices, he cannot effect sales, for his customers have no money with which to buy. This system is also exceedingly injurious to the construction of all public works. If a dock, a bridge, or a railway, is to be constructed, it is impossible to calculate the cost, for neither materials nor labour remain at the same price for two years together; and let the parties who engage in the undertaking be ever so respectable, it is impossible to say whether in a year or two hence they will be in a condition to respond to the calls for raising the necessary capital.

You will observe that these fluctuations of prices are not merely incidental, but are essential to the system. The foreign exchanges are never stationary. The debtor and creditor balances between this country and other countries are never exactly the same. Gold is the only money between nations. When other nations owe us money, they must pay us in gold; and when we owe them money, we must pay them in gold. This year our imports may exceed our exports by three millions; and next year it may be the reverse. "Now," say the political economists, "if you import three millions of gold this year, you must issue immediately three millions of notes; and if the next year you have to export three millions of gold, you must withdraw three millions of notes." And you will observe that the notes issued are thrown upon the money market in masses, in the way the most likely to stimulate speculation; and by the time that speculation has come into full play, and the prices of all commodities have advanced, gold is withdrawn, a contraction of the currency takes place, and the whole community is plunged in distress. And upon this principle of governing the currency, these alternations are unavoidable. We must go on for ever-

lasting in this see-saw fashion. The currency must run "up, up, up," and then go "down, down, down," so as to correspond exactly with the fluctuations in the foreign exchanges.

In all countries the amount of the currency will fluctuate to a certain extent, in consequence of the increase of trade, the increased quantities of commodities, the advance of prices from scarcity, and other causes. The witnesses from Scotland, who were examined before the Parliamentary Committee of 1826, stated that the circulation of Scotland increased regularly at fixed periods when certain payments were made. In the south of Ireland the notes in circulation in the month of January are considerably more than the amount of those in circulation in the month of July. This is occasioned by the corn, butter, and bacon trade. In these cases the increased issue of notes does not affect prices, and occasions no alteration in the foreign exchanges. Now, if the currency is to be regulated by the foreign exchanges, all these legitimate changes in the amount of the currency must be counteracted. If the exchanges are unfavourable, the currency must be reduced, though the state of trade may require its extension. And, on the other hand, if the exchanges are favourable, the currency must be increased, though the state of trade may not require it. The latter was the case in the year 1837. It is obvious, from the circulation of the country banks and from other circumstances, that the state of trade in that year did not require an enlargement of the currency, yet as the exchanges were favourable, the Bank of England increased her issues during the whole year. The money was not absorbed by the trade of the country, but accumulated in the hands of capitalists—interest consequently fell—and to obtain higher interest, the capital was ultimately invested in American securities; this was the first step towards producing the pressure of 1839.

But we are told that were the circulation wholly metallic, it would vary in this way, so as to cause a perpetual fluctuation in prices, and that hence a paper circulation ought to be made to vary so as to correspond. We dispute both the reasoning and the fact. Admitting the fact, that a

metallic currency would produce this eternal fluctuation in prices, we contend that this would be no reason for making a paper currency to fluctuate in the same way. A paper currency is employed to obviate some of the inconveniences of a metallic currency, and why not obviate this inconvenience? Will it be denied that a perpetual fluctuation in the prices of all commodities is an inconvenience? And if a paper currency can be so managed as to obviate this inconvenience, ought it not to be done? But we dispute also the fact. We do not admit that a currency, purely metallic, would fluctuate in the mode described. If a large quantity of gold and silver bullion were imported, it would not form part of the currency until it were converted into coin; while in the state of bullion it would have no more effect upon prices than though it had existed in the form of gold watches and silver spoons. To convert it into coin would occupy time—and afterwards it must be diffused through the country before it would cause a general advance of prices; and before this was effected an unfavourable turn of the exchanges might cause it to be again exported. But under our present system, the gold and silver imported are taken to the Bank of England and instantly turned into bank notes. This has the same effect as if the bullion could be *immediately* coined into sovereigns and shillings, and possessed also the rapidity of diffusion that is peculiar to paper money. It is clear, therefore, that to regulate our paper money by the foreign exchanges, is not to make the currency fluctuate in the same way as it would fluctuate in case it was wholly metallic.

Again, we ask whether this plan of issuing notes upon deposits or purchases of bullion does not produce the same effects as though the bank should issue her notes upon lodgments of cotton, or silk, or tea, or any other commodity. We should censure, and justly too, the conduct of a country banker, who had commenced corn merchant, and inundated his district with notes issued in the purchase of corn; but would his conduct be at all more censurable than that of the Bank of England, who inundate the country with notes issued in the purchase of gold or silver bullion? It may be said

that, when the country baner's notes are presented for payment, he could not honour them until he had first sold his corn, while the Bank of England, having not corn, but gold, could pay off her notes when presented. Supposing this to be correct, this would not counteract the evils produced by the excessive issue. The notes would not be presented for payment to the Bank of England until the foreign exchanges had become unfavourable. But the mischief would then have been done, and the prompt payment of the notes would not counteract the evils produced by the high prices and speculations that followed the excessive issues; and let it be observed that when the exchanges have thus been rendered unfavourable, it is by no means certain that the amount of notes for which gold would be demanded of the Bank of England would be limited to the amount of the portion that was in excess. It has been generally found that an unfavourable exchange resembles the operation of the syphon. When the currency is raised to a height that shall turn the exchanges, the gold continues to flow outward until nearly the whole stock is exhausted.

We may again observe, that if the amount of notes in circulation had been made to correspond with the stock of bullion in the Bank of England, the fluctuations would have been enormous. The following is the amount of bullion on hand at three periods:—

	Bullion.
1837—April 1	4,071,000
1838—April 5	10,126,000
1839—Oct. 18	2,525,000

Now then, upon the principle of the economists, as the gold increased 6,000,000 from April, 1837, to 1838, therefore the notes in circulation ought to have increased by 6,000,000 also; and as the gold was less by 7,500,000 in Oct., 1839, than it was in April, 1838, therefore the circulation ought to have been less also by the same amount. Are those who contend that the currency ought to be regulated by the foreign exchanges, prepared to affirm that the circulation ought to have fluctuated to the extent here mentioned? Such cer-

tainly appears to be the meaning of the language of Colonel Torrens and Mr. Loyd, for the former states, that "an importation of the metals to any given amount would cause an expansion of the currency to the same amount." And the latter states, "that the variations in the amount of the circulation shall correspond to the variations in the amount of bullion." In opposition to their views, we contend that the currency, if purely metallic, would not vary as suggested—that if it did so vary, that would be no reason for causing a paper circulation to vary in the same manner, and that an increase of the paper currency, solely in consequence of a favourable course of exchange, must raise the prices of commodities, lower the rate of interest, stimulate speculation, and cause the capital of the country to be invested in foreign securities.

We will now examine the consequences of a contraction of the currency, occasioned by an unfavourable course of exchange. The average amount of the Bank of England notes, in circulation during the thirteen weeks ending

	£
September 21, 1838, was . . .	19,665,000
December 10, 1839, „ . . .	16,732,000
Showing a reduction of . . .	2,933,000

in the course of fifteen months.

Here we are ready to admit that if the circulation was previously excessive, it ought to have been reduced; nor are we prepared to contend that no case can possibly occur in which it may be proper to permit a contraction of the currency by the operation of the exchanges. But we maintain that a contraction of the currency under an unfavourable course of exchange, would rarely be necessary if there had been no excessive issue when the exchange was favourable; and that, if past experience is any guide at all, a contraction of the currency cannot take place to the extent of the amount of gold withdrawn; and any attempt to effect this object must be attended with great distress to the community. But, before we go any further, we will trace its practical operation.

The theory is this:—By contracting her issues, the Bank of England produces a general fall in prices—these low prices induce foreigners to purchase our commodities—the bills drawn against these exports of commodities are brought into the market, and render the exchanges favourable; so that subsequently the gold which had been exported is brought back in payment for these cheap goods. Let us examine the different stages of this process.

The first step is—the Bank of England contracts the circulation—that is, she reduces the amount of her notes in circulation. This is done in two ways: first, by withdrawing the notes already in circulation, and, secondly, by restraining further issues. The former is effected by selling Government Stock Exchequer Bills or other securities, and the latter by diminishing the amount of loans and discounts. But in this attempt to reduce her circulation, the bank has to encounter a difficulty. The Bank of England is a bank of deposit as well as of circulation; and when she contracts her circulation, money becomes more valuable, and hence the depositors withdraw their lodgments, some to employ the money in their mercantile engagements, and others to put out the money at a good rate of interest. The withdrawal of this money puts more notes into circulation, and hence, to that extent, counteracts the operations of the bank. This difficulty, however, is not very formidable. The government deposits will not be removed, nor, generally, will those lodged by trustees, assignees, or persons out of trade. It will be chiefly by people in business, and the effect is merely to induce the bank directors to make a further contraction of the circulation to counteract the withdrawal of her deposits. If the bank is determined to contract her circulation, there is no doubt she has the power of doing so.

The second stage of the process is, that the contraction of the circulation causes a general fall in the prices of commodities. Political economists consider it to be a doctrine firmly established—that if the amount of notes in circulation be reduced, the prices of goods must fall, and that, too, in exact proportion to the amount of the notes withdrawn. This

would, no doubt, be the case if all other things remained the same, but all other things do not remain the same. The effect of a contraction of the circulation upon the prices of commodities is liable to be counteracted or retarded to a certain extent by various circumstances.—First: By the substitution of credit for money. When the Bank of England reduces the amount of money in circulation, that class of purchasers who pay ready money have reduced means of purchase. This occasions a reduction of the demand, and would have a tendency to produce a fall of prices. But the sellers, rather than sell a smaller quantity of their wares, offer to sell for credit instead of money, and, by this substitution of credit for money, the price of the commodity is maintained. Secondly: By the increase of a bill circulation. The reduction of the amount of the note circulation uniformly increases the amount of the bill circulation. These bills are of two classes —commercial bills and bankers' bills. In all trades it is customary to allow a liberal discount for ready money. This allowance usually amounts to from five to seven and a half per cent.: hence, wealthy mercantile houses usually pay money and take the discount; but when money becomes scarce, instead of saying, "Take off the discount, and I will pay you the money," they say, "Draw upon us and we will accept." And when a country banker discounts a bill for his customer, instead of giving him the cash, he will give him his own draft at twenty-one days upon his London agent. These bills serve the purpose of a currency. Formerly, the circulation of Lancashire consisted almost entirely of bills of exchange. Thirdly: Another cause that prevents an immediate fall in prices, is the strength of the joint-stock system of banking. Formerly, when the Bank of England contracted the circulation, some of the private banks immediately failed. This caused nearly all to be suspected. The banks called in the loans they had made to their customers, and declined to discount. Consequently, the manufacturers and others were compelled to sell their commodities in order to meet the payments they had to make. But the joint-stock banks are different from the private bankers; they have more capital

engaged in the business; they have a larger portion of the public confidence, and have therefore less fear, and they have more ample means for assisting their customers: hence, when a pressure comes upon the money market, the customers say to the banks—We have ample property, but should we force a sale just now we shall sustain a great loss; lend us, therefore, sufficient to meet our present payments during the existing pressure, and we will give you the most ample security. Now, in this case, if the banker knows his customer to be a man of property and a prudent man, he will, of course, comply with his wishes. It is not the interest of a banker to support his customer in a speculative undertaking, but it is his interest, and also his duty, to give him support in any temporary calamity in which he may be involved. It is easy to see that if assistance of this kind is offered on a large scale, it will have a tendency to prevent a fall of prices; but although the prices of goods may not fall, the amount of sales will be reduced, and there will be a stagnation of trade, that may throw large masses of people out of employment. Fourthly: Another cause that will prevent or retard a general fall of prices, under a contraction of the currency, is the alteration of the laws of usury. Formerly, when money could not be lent at a higher rate than five per cent., parties sold their goods at a reduced price to be enabled to meet their payments. Large stocks of goods being brought to market under such circumstances necessarily caused a fall of prices; but now the merchants or manufacturers, instead of selling their goods, will borrow money at a high rate of interest. And, on the other hand, moneyed capitalists who formerly made purchases in seasons of pressure at reduced prices, are now willing to lend their money at advanced rates of interest. Hence, as the goods are not brought to market, no fall takes place in the price. Fifthly: We may mention one circumstance more that tends to prevent a sudden fall in prices under a contraction of the currency—which is a previously sound state of trade. Where great speculation has existed, a contraction of the currency will necessarily cause the prices of those articles that have been the subject of speculation, to fall to their

natural level, and probably below that level. But when trade has been prudently managed—when each man holds no larger stock than his legitimate business requires, and which is only commensurate with his capital, a contraction of the currency will not so suddenly nor so deeply affect the prices of these commodities, and, possibly, may not affect them at all —the amount of transactions may be diminished without the prices being reduced. In compliance with the theory, however, we must suppose all these difficulties to be overcome, and that the contraction of the currency has produced a general fall of prices. This brings us to the next operation.

The bank having contracted the circulation, and this contraction having caused a general fall of prices, it is next presumed that large quantities of goods will then be purchased for exportation. It seems reasonable to believe that goods will be more readily purchased when prices are low than when they are high. But yet it may be asked whether the quantity of goods purchased will not be regulated by the consumptive demand in foreign countries, and whether the low prices will cause any very large increase in the quantity consumed. Without waiting to discuss the question, we may safely contend that the goods purchased can have but little effect in rectifying the exchanges. As soon as the bank puts on the screw all purchases for foreign exportation immediately cease—the exporters wait until prices have reached the lowest point of depression, and then, and not till then, they make their purchases. But when this point has arrived the exchanges have been rectified—gold ceases to be exported before the lowest point of depression has arrived. Purchases of goods for exportation may have the effect of bringing back some of the gold which has been sent abroad, but they come too late to prevent the drain, so that the Bank of England has, by putting on the screw, deprived herself of the assistance of the foreign merchant during the struggle, and obtains his co-operation only after the conflict is over. And yet to obtain his assistance was the only object for which the circulation was contracted.

It is now presumed that large quantities of goods having

been purchased for exportation, bills will be drawn against these exports and sold in the market, and these bills will turn the exchanges in our favour. The export of goods will certainly have a tendency to rectify the exchanges, but the bills brought to market may or may not *immediately* check the exportation of gold according to circumstances. If the unfavourable course of the exchange has arisen merely from the balance of trade being against us, and gold is exported because it is the cheapest mode of making payments, then a supply of bills will check the exportation of gold. A merchant will send either gold or bills according to his interest, and when he can obtain bills on more favourable terms than gold, he will make his remittances in bills. But if the demand for gold arises from an importation of foreign corn, then a supply of bills will not prevent an exportation of gold, for the countries from which we export the corn will require gold. If, too, the demand for gold arises, not from an unfavourable balance of trade, but from political causes—if, for instance, the Emperor of Russia wishes to replenish his military chest with gold—or the President of America is determined to have a gold instead of a paper currency—then a supply of bills will not prevent the exportation of gold. The consideration that may influence a merchant will not influence a monarch: the latter will not take the expense into account; if he determine to have gold, let it cost what it may, the gold he will have.

We see, then, that the plan of controlling the exchanges merely by contracting the circulation is a very tedious process, and, after all, an uncertain one. For although it has a tendency to accomplish the object, yet the operation may be so tedious that the Bank of England may stop payment in the meantime. Possibly such would have been the case in the year 1839, had not the Bank of England made the arrangement with the Bank of France. It is obvious that the directors of the Bank of England had become alarmed, and were unwilling to depend entirely upon a contraction of the currency for rectifying the exchanges.

But we will suppose all the difficulties we have enumerated to be overcome, and the grand object accomplished. The

bank has contracted the currency—the contraction of the currency has reduced prices—the reduction of prices has caused large quantities of goods to be purchased for exportation—and the exporters have brought to market a supply of bills that have turned the exchanges. What is the state of the country after all this is accomplished? The fall of prices has driven hundreds of traders into the 'Gazette,' the decline of trade has thrown thousands of people out of employment, property of every kind has become less valuable, money cannot be obtained even for the most useful and necessary purposes, a general want of confidence prevails, and our only consolation is that, nevertheless, the Bank of England still retains a few sovereigns in her vaults.

Now, then, gentle reader, you see exactly how the whole system works, or how it is intended to work. When the exchanges are favourable, gold comes into the country. This gold is taken to the bank, who issue their notes for it; the notes thus put into circulation raise the prices of all commodities, stimulate a spirit of speculation, lower the interest of money, and cause the capital of the country to be invested in foreign securities. Then the gold must go out of the country to pay for these foreign securities; the Bank of England gives out the gold and takes in her notes. Now money becomes scarce, the rate of interest advances, the prices of commodities fall, the low prices induce foreigners to buy, and the export of these goods rectifies the exchanges. Again, gold comes into the country; is again taken to the Bank of England, who again issues her notes, and so we go on as before. We think we have said enough to show the unsoundness of this system.

In addition to those evil effects that we have already mentioned as essentially connected with the system, we will notice a few other bad effects that it has incidentally produced.

1. One effect is, that the contraction of the circulation of the Bank of England leads to a general apprehension of danger. Hence the bankers and others keep larger reserves of bank notes on hand in order to be prepared for the worst, and thus the evils of the contraction are considerably in-

creased. That portion of the notes of the Bank of England which is passing from hand to hand may be called the active circulation. That portion which is hoarded or kept in reserve to meet possible demands may be called the dead circulation. Now it is quite certain that the dead circulation, while it remains in that state has no effect upon the prices of commodities—the spirit of speculation—or the foreign exchanges. These are effected only by the active circulation. In seasons of pressure the dead circulation is increased at the expense of the active circulation, because people hoard their money to meet contingencies. Hence we find the pressure is often more severe than the reduction of the bank circulation would seem to warrant. But the fact is, that the pressure is in proportion to the reduction of the active circulation, and not in proportion to the reduction of the whole circulation. On the other hand, in seasons of abundance, the dead circulation is diminished, the active circulation proportionably increased, and hence the stimulus given to trade and speculation is much greater than the returns of the Bank of England would warrant us to expect.

This is the natural effect of a pressure. A contraction of the circulation produces pressure. An apprehension of further pressure produces panic. The determination of the Bank of England to turn the exchanges by a contraction of the currency is always a matter of notoriety. But no one knows how soon the exchanges may be turned, or to what extent the contraction of the currency may be carried—nor how many failures will occur before the object will be effected. Hence arises universal distrust. And as credit and confidence are essential to trade, the sudden stoppage of this confidence causes great commercial distress. Pressure, when accompanied by panic, is far more destructive to the commercial classes. In 1836 there was less pressure but more panic than in 1839, and the failures were then more numerous. We may observe, that in seasons of pressure, some public writers and political economists, having adopted the principle that the currency ought to be regulated by the foreign exchanges, adopt a course very likely to occasion panic. They reproach

the bank for not reducing her circulation more rapidly, and they denounce every fresh issue of notes as a departure from sound principle. It must, however, be admitted, that in doing this they act consistently with their theory—that the circulation ought to be contracted, so as to correspond with the fluctuations in the stock of bullion in the Bank of England.

2. Another effect of regulating the currency by the foreign exchanges is, that it leads in seasons of pressure to an enormous rate of interest. We allude not merely to the increased market rate of interest produced by a diminished supply of money, but to the artificial rate fixed and announced by the Bank of England.

We are friendly to the alteration that has been made in the laws of usury, and think that during the recent pressure its effects have been very beneficial. At the same time, a bank that has a monopoly of the circulation should not take advantage of the law to exact an extortionate rate of interest. In our opinion the Bank of England should never charge more or less than 5 per cent. Last year she raised her rate to 6 per cent. We do not believe that she did this with any view of making larger profits for her proprietors. But having determined to regulate the currency by the foreign exchanges, and the state of the exchanges requiring that the currency should be contracted, she raised the rate of interest, with the view of checking the demand for discounts. It has been questioned, whether this effect was actually produced. It has been supposed that this measure created more apprehension in the public mind, and thus led to increased demand for discount. However this may be, it is certain that the advance of the rate by the Bank of England, led to an immediate advance in the market rate of discount. We have already remarked, that "when the Bank of England lowers her rate of interest in seasons of abundance, it has the effect of reducing the market rate of interests below the bank rate." But in seasons of scarcity, precisely the opposite effect follows. For when the bank raises the rate of discount, it has the effect of raising the market rate still higher. Thus, if the bank should be discounting at five per cent., and the market rate should be five

and a half per cent., let the bank raise her rate to six per cent., and the market rate will immediately become seven or perhaps eight per cent., or even higher upon inferior bills. For the bank rate of discount will be the market rate for only the first class of bills—such bills as could be discounted at the bank—and all bills of the second class will have to pay an advanced rate, and those of a still more inferior character will not be discountable at all. This is a great injury to the middle class of traders, many of whom will be unable to make good their payments from the sudden stoppage of their discounts. The rate of interest is merely the price paid for the loan of money, and it is clear, that if the Bank of England did not regulate her issues by the foreign exchanges, she would never raise the rate merely to check the issue of her notes. But under the present system, when the market rate of interest is low, she reduces her rate to make it still lower; and when it is high, she advances her rate to make it still higher.

3. The fluctuations in the value of money produced by attempting to regulate the currency by the foreign exchanges are injurious to both the London and the country bankers. In seasons when money is abundant, the bankers obtain but a low rate of interest on their loans and discounts—and they are tempted to make imprudent investments in order to employ their funds. And when, on the other hand, money is scarce, the amount of their lodgments is reduced—the rate of interest allowed on the permanent deposits is advanced—a larger sum is kept unemployed in the till—and there is more danger from losses, either by the failure of parties in debt to the bank, or by the necessity of realizing government securities. Those country bankers who are in the habit of re-discounting their bills in London are induced, when money is abundant, to carry this system to a great extent, because they can obtain money at two or three per cent. in London, and lend it in the country at four or five per cent. But when money becomes scarce they have to pay an exorbitant interest or are denied discounts altogether, and they are then compelled to refuse their customers their usual accommoda-

tion, and then great distress is occasioned in the provinces. Except under peculiar circumstances, both the extremes of abundance and scarcity of money are unfavourable to large banking profits. A state in which money is easy without being abundant, and valuable without being scarce, is the most conducive to the prosperity of both the banking and the commercial interests of the country.

4. The attempt to regulate the currency by the foreign exchanges is a main cause of the hostility of the Bank of England towards the joint-stock banks. The joint-stock banks have been very useful to the Bank of England. They have extended her circulation in the provinces. In seasons of pressure they have taken off her shoulders a large portion of the burden of supporting public credit, and by the confidence they have spread through the country they have saved her from a domestic demand for gold. Why, then, should the Bank of England bear towards them any degree of animosity?—Why is every note issued by a joint-stock bank refused by the branches of the Bank of England unless funds have previously been lodged for its payment?—Why, in the intercourse of business, are restrictions placed on the joint-stock banks that are not placed on the private banks? —Why is every bill that bears the endorsement of a bank of issue refused to be discounted—an act of hostility wholly unparalleled in the history of commercial warfare—and which recognises as a principle in banking practice, that a bill, discountable on its own merits, may be rendered undiscountable by the addition of an unquestionable endorsement.* All these hostile measures result from a desire on the part of the Bank of England to regulate the whole currency of the country by the fluctuations of the foreign exchanges. Neither the joint-stock banks of England, nor those of Scotland, regulate their issues by this principle. They have neither the will nor the power to make their circulation fluctuate so as to correspond with the fluctuations of gold in the coffers of the Bank of England. Mr. Horsley Palmer has complained that the efforts of the Bank of England to produce a general fall of

* Page 254.

prices, are, to a certain extent, counteracted by the operations of the joint-stock banks. The accusation is just, but Mr. Palmer has mistaken the means by which this effect is produced. It is not by the issue of notes, but, as we have already explained, by their large paid-up capitals, their stability, and the public confidence they enjoy, that they are enabled to prevent or retard an undue depression of prices under a contraction of the currency by the Bank of England. Mr. Horsley Palmer has eulogized the private banks, of whom, he states, above 150 failed about the year 1810, and about eighty more in 1825. But the joint-stock banks cannot be so easily crushed. They are able to support public credit, even under an adverse state of the exchanges, and hence it is their strength, not their weakness, that makes the Bank of England their enemy. These hostile feelings are much to be deplored. Contests between banks are always injurious to the community, and seldom of advantage to the banks themselves.

5. There was a time that, in seasons of distress, all solvent banking and mercantile establishments instinctively turned their eyes to the Bank of England for support, AND RECEIVED IT, TOO. But after the bank had adopted the principle of regulating the currency by the foreign exchanges, a different course was adopted.

6. Another evil connected with the system is, that during seasons of pressure parties who profess to be friends of the Bank of England do all they can to destroy public confidence, and to promote suspicions and distrust with reference to commercial and banking establishments. Reports are *said* to be in circulation; banks are *said* to have failed; mercantile houses are said to be embarrassed; every kind of calumnious imputation is thrown out against large classes of the commercial community. All this is done with a view to serve the Bank of England, and it does serve the Bank of England. By destroying public confidence the prices of commodities are more likely to fall, and hence the foreign exchanges may be sooner rectified. We are far from intimating that the bank directors themselves set in motion these slanderous

reports. But though they may "despise the traitor, they profit by the treason."

In thus tracing the operation of the system of regulating the currency by the foreign exchanges, we have confined ourselves to those effects which have been actually produced. But this system has never yet been fully tried. The Bank of England has never either augmented or contracted the circulation to the extent which her adherence to this principle would require. And if, on the other hand, the circulation had been contracted in 1839 to the same extent as the stock of bullion, the ruin that would have spread throughout the country would probably have led to a domestic demand for gold that would have caused the bank to stop payment. This is the grand charge brought by the political economists against the bank directors, that they have not acted upon this principle to the extent that they ought. Now we boldly contend that it is impossible to carry it out into full operation. We have seen that an adherence to this rule would have required that the circulation of the bank should have been 7,500,000*l.* less in October, 1839, than in April 5, 1838, that is, it would have been reduced from 18,987,000*l.* to 11,486,000*l.* A political economist would find this a very easy thing to do upon paper, but we would appeal to bankers, merchants, and even to the bank directors whether this could be effected? Whether even a resolute attempt to effect it would not cause half the bankers and merchants in the nation to stop payment? And whether it would not produce such a panic as to cause a domestic demand for gold that would stop the Bank of England herself, and without the intervention of government reduce the country to a state of barter? At present the doctrine of regulating the currency by the foreign exchanges is a mere theory. By "a theory" we mean a doctrine that has never been tried by the test of experiment. The Bank of England, indeed, has tried it as far as she dared, and as far as it has been tried its effects have been most disastrous.

But we shall be asked, If the currency is not to be governed by the foreign exchanges, by what principle ought it to be

governed? This question is founded upon the assumption that there is some one principle which ought to be observed, regardless of all other considerations, and by an adherence to which the currency will at all times be kept in a sound and proper state. If the querist will demonstrate to us that such a principle exists, we will then attempt to discover where it is to be found. But we boldly maintain that the regulation of the currency by the foreign exchanges is not such a principle, and we dare its advocates to the proof.

But an objector may say, it is admitted that the bank ought not to increase the circulation on account of a favourable course of exchange, but can she avoid contracting the circulation when the exchanges are unfavourable? Must she let all her gold be exported without making an effort to stop it? To this we reply, first, that were the Bank of England not to expand her circulation when the exchanges are favourable, the exchanges would seldom be unfavourable. The late Mr. Rothschild stated to the Parliamentary Committee of 1832, that the exchanges were so uniformly in favour of England, in consequence of our manufactures, that it was necessary we should occasionally import corn, and engage in foreign loans, in order to get rid of our superfluous treasure. "England is the place of settlement for the whole world: what is wanting in India, in the Brazils, &c., gets settled here; and suppose you import iron from Sweden—if you receive 1,000*l.* worth of iron, and manufacture it, you will then get 10,000*l.* for it, and then, when it is manufactured, it is sent to all the world. Suppose you get cotton from America, the cotton costs there 3*d.* or 6*d.* per pound; but when it is manufactured, that pound of cotton is worth four times as much. In the regular course of things, the exchanges with every country must be in favour of this." Secondly, we reply, that were the currencykept in a sound state, an unfavourable course of exchange—as, for instance, in the case of a bad harvest—would not be likely to take away more gold than what the bank could conveniently spare, without deranging the currency. We again quote Mr. Rothschild: "Suppose we have a bad harvest in this

country, and we import very largely corn: this will have an effect *immediately for a short time*, but in general the exchange is always in our favour." Thirdly, we reply, that in those cases where the exchanges are so unfavourable as to warrant the interference of the Bank of England, the bank could make such arrangements as would enable her to meet the demand for gold without contracting the circulation. In the year 1839 the contraction of the currency failed to arrest the exportation of gold, and that object was ultimately effected by the arrangement to draw bills upon Paris. Why could not such an arrangement be permanent, and why could it not be acted upon in the first instance, instead of being postponed to the eleventh hour? Other means might also be employed to stop an unfavourable course of exchange for a time, until it was rectified by the natural course of trade. A few years ago the exchanges between Ireland and England fluctuated more than they do now between England and France; but in 1825 the Bank of Ireland determined to give bills on London at twenty-one days' date for cash, and hence this exchange became the maximum of the fluctuation. Why may not the Bank of England adopt a similar practice with reference to the continental cities—we do not say permanently, but to meet those temporary cases to which we have referred. "The Bank of England," said Mr. Rothschild, with reference to regulating the exchanges, "has great power if they do not care to sacrifice money." And why should they not sacrifice money?—why should not a portion of the expense of rectifying the exchanges be borne by those who must supply the gold? At present, the plan is for the bank to reduce her circulation, and hence to lower prices; our manufacturers have then to sell their goods at reduced prices, and thus the cost of rectifying the exchanges falls upon the productive industry of the country, while during the process the profits of the Bank of England are actually augmented in consequence of carrying on her business with a less amount of treasure.

The case of Ireland appears so appropriate that we wish to bring it under the particular attention of our readers. In

the year 1804 a committee of the House of Commons was appointed to "inquire into the state of Ireland, as to its circulating paper, its specie, and current coin, and the exchange between that part of the United Kingdom and Great Britain, and to report the same, with their observations and opinions thereupon, to the House." The committee directed their inquiries to three points: 1st, As to the fact of an unfavourable exchange existing, and to what extent; 2nd, As to the causes which have created it; 3rd, As to the remedies which can be resorted to for either removing or alleviating the inconveniences arising from it. Under the last head the committee did not recommend that the banks of Ireland should extend their issues of notes when the exchange was favourable, and suddenly contract them when it became unfavourable—but they recommended that the Bank of Ireland should collect funds in London and give out bills on London at a fixed number of days after date. The following is an extract from the report: we have placed in italics those portions of it that seem capable of an application to the exchanges between England and the Continent:—

"Other modes of obtaining a common medium, such as that of inducing or even compelling the Bank of Ireland to give Bank of England notes in exchange for their own on demand, or to make their own exchangeable for them in London, or to give *bills of exchange on London for them,* have been suggested; and there is no doubt any of them would have the effect of rectifying the exchange. The objection that has been made to this proposal is the difficulty and expense to the Bank of Ireland which would attend the procuring a fund in London on which to draw. On this your committee observe, generally, that neither the difficulty nor the expense attendant on this measure would be so great as that to which the bank, by its constitution, is necessarily subject at all times when not protected by a restriction from performing its engagements; and that whatever funds the bank formerly applied, or intended again to apply, on the removal of the restriction, to provide for the difficulty and expense of obtaining a supply of gold, might in the interim be applied to the procuring of English bank notes; the evidence of Mr. Winthrop points out the practicability of obtaining a sufficient supply of Bank of England notes with such a fund; his expression is, that '*the Bank of Ireland, or any person, may procure bank notes now to any extent, if they will pay for them.*' But Mr. Mansfield's evidence so clearly shows the practical mode of carrying this measure

into effect, that your committee cannot impress it too strongly upon the attention of the House; it shows, in the example of Scotland, how effectually a very small sum, vigorously and wisely applied, did operate, and that banks there did establish an adequate fund with ultimate advantage to themselves.

"His account states, that 'there was, after the peace of Versailles, in 1763, an exchange of five or six per cent. against Scotland with London, created by persons collecting gold from the different banks there, bringing it to London, and passing their bills at Edinburgh for it, in order to put a profit into their own pockets by raising the exchange. The two chartered banks of Scotland, seeing that this exchange arose from artificial means, collected as much funds as they could bring to London, and by drawing gradually at one-half, or one per cent. less than the others, reduced the exchange to what they esteemed par bills of forty days' date,' at which it has steadily continued ever since, unaffected by the failure of the Bank of Ayre; the convulsions to credit in general in 1792 and 1793; the failures in 1795; and the difficulties which caused the restriction in 1797, but which was not extended to the chartered banks of Scotland; and all this notwithstanding the great presumption, that if an account of all pecuniary transactions between Scotland and England could be ascertained, it must have often happened that the balance was against the one country or the other.

"This fact gives great force to the argument of those witnesses who propose that *the Bank of Ireland should establish a credit for the like purpose in London;* and the present peculiar situation of the Irish finances not only points out a ready, but an adequate and effective fund, which at the same time that it gives to the Bank of Ireland every prospect of success which has attended the measures of the chartered banks of Scotland, exempts it from all expense, risk, or difficulty which might attend it; for your committee must observe, that the Bank of Scotland undertook to provide this fund *at their own expense,* but the Bank of Ireland has an opportunity of establishing it without expense to themselves; and further, it appears to have been suggested to the banks of Scotland by their good sense and patriotism, to try the efficacy of a measure without precedent, while the Bank of Ireland has only to follow an example where success has been already demonstrated by experience.

"Your committee, therefore, recommend that immediate measures should be taken with the Bank of Ireland for establishing an effectual fund in London for drawing on, whereby they may gradually reduce the exchange in the manner somewhat resembling that which was adopted by the Edinburgh banks. If any argument should be thought necessary in aid of the strong practical example which Scotland affords, they would refer to the evidence of Mr. D'Olier, and of others, but particularly Mr. Irving, who states, 'that if the bank were to invest part of its capital in England, thereby furnishing *a fund which would at all times*

give it the means of drawing, it would in such case have a control over exchange operations of such power as to enable it at all times to regulate the exchange;' and he says again, 'that he would consider a loan of two, three, or four millions in England for the use of the government of Ireland, paid into the Bank of England, to be placed there to the credit of the Bank of Ireland, to operate to all intents and purposes as such fund.' Mr. Irving adds, 'that the creation of such a fund in London might, and most probably would, be attended with considerable expense to the bank, but the evil of the expense would be temporary, the good would be permanent to the bank and to the public. This plan,' he says, 'would necessarily oblige the Bank of Ireland to be dealers in exchange, which would be a new source of advantage that would more than compensate the additional risk and trouble.' And they agree entirely with that gentleman in his opinion, '*that a bank, having an exclusive charter, exacts from its directors a twofold duty—a duty to the proprietors, and a duty to the public, which, operating together, would make the directors avoid sacrificing their duty towards the public to the interest of the proprietors.*' In this case, however, the interest of the proprietors of the Bank of Ireland and the public seems to be the same; and there possibly and probably is another fund, which that joint interest might induce the directors to invest in the Bank of England, or use for the benefit of the exchange, if they were legally empowered, namely, whatever *surplus they have of specie in their coffers,* over and above what they are allowed by law to issue, or what a due consideration of the circumstances of Ireland might show it prudent or necessary for them to keep there. Of the amount of such surplus your committee do not pretend to form any judgment; be it what it may, it is as useless both to the bank and to the public, where it lies, as if it were buried by them in the earth; but by being applied to free exchange from the mischiefs which oppress it, it might be of essential service. If an unfavourable exchange should even take the whole of such surplus out of the country, which is by no means to be supposed, a favourable exchange, which would be the probable consequence, must soon bring it back again, and meantime it would not only operate beneficially, but might have the advantage of being at least as completely secured for the Irish Bank proprietors as it is now.

"Before your committee quit the subject of exchange, they wish to observe, that if their inquiries have failed in enabling them to propose any effectual remedy, still a remedy ought to be sought for by the wisdom of the House; for that a great country, now placed as Ireland is under the same legislature with England, forming a constituent part of the United Empire equally as England, or any county in England does, its metropolis not so distant from London as any part of Scotland, Newcastle, Carlisle, or Durham, should labour in its procuring intercourse with England, under a constant varying exchange which the others are

free from; that *the intervention of a narrow sea*, with regular daily packets, and *speedy means of mutual transport*, should cause an incumbrance in the mutual interchange of money, which does not exist where the distance by land is greater, and the communication by post not more frequent, nor more expeditious; that there should be no exchange, or an exchange commuted for a regular number of days between Edinburgh and Liverpool, and Bristol with London; and that an exchange must exist, or is incapable of such communication between Ireland and London; and that *the evils which this long inquiry has investigated should be entirely without remedy, are positions so strange, that your committee cannot believe them to be founded in the common nature of things*, and must impute to their own insufficient investigation, or want of sagacity, the not having pointed out an adequate remedy, if they have failed to do so."

It will be remembered that this Report was made before the invention of steamboats, and before the assimilation of the currency. In 1804 the money of Ireland was different from that of England, and Dublin was more distant from London than Paris or Hamburg at the present time. Parliament did not enforce the recommendation of the committee, but *twenty years afterwards* the Bank of Ireland adopted their suggestions. There was no difficulty in carrying the measure into effect, and the evils that formerly resulted from the fluctuations of the exchanges are no longer known. Why, we ask, cannot similar measures be adopted by the Bank of England with reference to our foreign exchanges? We do not mean that the Bank of England should expand her circulation, when the exchanges are favourable—thus advance prices, stimulate speculation, and drive the capital of the country into foreign investments, and then attempt to counteract the effects of these proceedings by artificial operations on the exchanges. But we do maintain that, if the bank should not extend her circulation under a favourable course of the exchange, she can, at all times, be prepared to meet an adverse exchange, by other means than a contraction of the currency.

We do not think it necessary to notice the various schemes that have been suggested to prevent the recurrence of pressures on the money market. Those that are proposed by the most respectable writers refer to the establishment of

a national bank,—conferring on the Bank of England the sole privilege of issuing notes,—and the separation of the currency department from the other branches of her business. All these suggestions are founded upon the principle that the currency ought to be regulated by the foreign exchanges, so as to make the amount of notes in circulation to expand or contract according to the fluctuations in the stock of bullion. And these measures are proposed as the means of giving greater efficiency to the principle, so as to render the fluctuations in the currency more prompt and more extensive. If we have been successful in proving the unsoundness of this principle, we have given to these suggestions a sufficient refutation, though they are all highly objectionable upon other grounds. Barring her exclusive privileges, we see no objection to the Bank of England as at present constituted—her recent acts of mismangement have arisen, not from any defect in her constitution, but from the adoption of an erroneous theory which had been forced upon her attention by the political economists.

We disclaim all theory. In the government of a bank, as in other things, the best teacher is experience. A bank that has a century of experience ought to require no other guide. Were the voice of experience allowed to be heard in the bank parlour, it would address the directors to this effect:—"Cast away your theoretical notions about the currency, and act like men of business. If you wish to prevent the recurrence of pressures on the money market, you must guard against the causes that produce them. It is clear that all the recent pressures have been produced by the abundance and cheapness of money—this has led to speculation and to investments in foreign securities. You were yourselves the cause of this abundance and cheapness of money, by attempting to regulate your issues of notes by the course of the foreign exchanges, and by reducing the rate of interest. Now then, avoid these things in future. Do not attempt to regulate your issues merely by the course of the exchange. Do not issue your notes against lodgments or purchases of bullion. If you wish to increase your bullion, sell some of

your securities for that purpose; and when you have got as much as you want, take no more. But keep a large stock, so that a bad harvest or two may not exhaust your store. Maintain a high rate of interest. And you should discourage, by every means in your power, all investments in foreign securities. If you do not by these means prevent all future pressures, you will, at all events, render them less frequent. No instance has yet occurred of a pressure on the money market, unless preceded by an abundance and cheapness of money, attended by a spirit of speculation. You are, therefore, warranted to expect that you will avoid further pressures, if you avoid the causes from which they have sprung. If, however, you still find that pressure arise from other causes, you must then guard against those other causes in the same manner. Thus you will profit by experience, and from the calamities of the past you will gather instruction by which you will be able to guide your conduct for the future." Should the course here suggested be adopted, we believe the nation might, in a great degree, be saved from a recurrence of those tremendous evils that have arisen from the mismanagement of the currency.

POSTSCRIPT.

No. 1. It was not until after most of the foregoing pages were written, that we read Mr. Loyd's* "Remarks on the Management of the Circulation during the Year 1839." All Mr. Loyd's animadversions and suggestions are founded upon the principle that the currency ought to be regulated by the foreign exchanges. But this principle is not proved, nor attempted to be proved. As we have controverted the principle, we shall abstain from examining the details. Admitting the principle to be true, the conclusions may be correct enough. If the currency ought to be made to correspond with the fluctuations of bullion in the Bank of England, it cannot be denied that every private and joint-stock bank of issue throughout England, Scotland, and Ireland has departed from "sound principle." A theory that involves such a sweeping censure

* Now Lord Overstone.

requires to be established by unquestionable proof. However low the estimate Mr. Loyd may place upon the intellectual powers of these "self-styled practical men," it seems fair that they should be made acquainted with the grounds of their condemnation.

2. The report of the Manchester Chamber of Commerce stated that there had been within a few years great fluctuations in the amount of the circulation, and that these fluctuations had caused great distress. It is no refutation of this to say, that other causes *may* also produce distress, or that a portion only of the distress that has been experienced had arisen from fluctuations in the currency; nor is it any refutation to say, that these fluctuations in the amount of the currency were the necessary consequence of regulating the currency by the foreign exchanges, and that if this principle had been strictly carried out the fluctuations would have been greater. To admit that to regulate the currency by the foreign exchanges must cause great fluctuations, and that these fluctuations must produce distress, is to admit the points for which its opponents contend.

3. Mr. Tooke has stated, in his work upon "The Proposed Alterations in our Banking System," that up to April, 1838, the circulation was in a perfectly sound condition. He grounds this opinion upon the fact that, at that time, the bullion in the Bank of England was equal to one-third her liabilities. We hold that at that period the condition of the currency was most unsound. The bank had issued her notes against importations of bullion. These notes were not required by the state of the country; but, as a matter of course, the issue had the effect of increasing the proportionate amount of bullion. If, at the present moment, six millions of gold were to be imported, and the bank were to issue against it six millions of notes, the amount of bullion in the bank would then be fully equal to one-third of her liabilities; but will any one maintain that, after the sudden issue of six millions of notes, the currency would be in a sound and healthy state?

4. Both Mr. Tooke and Mr. Loyd reproach the directors of the Bank of England for not commencing the contraction of the currency at an earlier period, and carrying it on more rapidly. The error of the Bank of England, as we conceive, was in unduly expanding the currency in the years 1837-8. This lowered the rate of interest, drove the capital of the country into foreign investments, and, consequently, turned the exchanges. But after this mischief had been done, a more rapid contraction of the currency must have produced more calamity. It is quite possible that, by a sudden contraction to an enormous amount, a shock might have been given to commercial credit similar to that of 1825, and this might have produced a more speedy effect upon the exchanges, but then the sufferings of the nation must have been increased. The more rapidly the principle against which we have contended is brought into action the greater misery it will produce.

CURRENCY AND BANKING.

CURRENCY AND BANKING.

1. *Report of the Select Committee to inquire into the Effects produced on the Circulation of the Country by the various Banking Establishments issuing Notes payable on demand, and to whom the Petitions presented this Session relative to Currency and Banking and the Report of former Committees on Banking were referred.*
2. *The Speech of Joseph Hume, Esq., M.P., in the House of Commons on the 8th July,* 1839, *on a Motion for inquiry into the Pecuniary Transactions of the Bank of England since the Resumption of Cash Payments in* 1821.
3. *Remarks on the Management of the Circulation and on the Condition and Conduct of the Bank of England and of the Country Issuers during the Year* 1839. By Samuel Jones Loyd. Richardson.
4. *An Inquiry into the Causes of the Pressure on the Money Market during the Year* 1839. By James William Gilbart. Longman.
5. *A History of Prices, and of the State of the Circulation in* 1838 *and* 1839, *with Remarks on the Corn Laws and on some of the Alterations proposed in our Banking System.* By Thomas Tooke, Esq., F.R.S. Longman.
6. *A Letter to Thomas Tooke, Esq., in Reply to his Objections against the Separation of the Business of the Bank into a Department of Issue and a Department of Deposit and Discount, with a Plan of Bank Reform.* By R. Torrens, Esq., F.R.S. Longman.

7. *A Letter to James William Gilbart, Esq., General Manager of the London and Westminster Bank, on the Regulation of the Currency by the Foreign Exchanges, and on the Appointment of the Bank of England to be the sole Bank of Issue throughout Great Britain.* By Robert Bell. Richardson.
8. *A Defence of Joint-Stock Banks and Country Issues.* By the Author of "Money and its Vicissitudes in Value," "Essays on the Formation of Opinions," &c., &c. Ridgway.

The subjects of currency and banking have recently been so much discussed, that their introduction to the notice of our readers will require no prefatory observations. We shall therefore proceed, in the first place, to review those principles of the currency which are advanced in the works before us, and then consider those plans that are proposed for its administration.

Among the principles of the currency we shall select, as the subject of investigation, a few of the most prominent. We shall inquire,

I. What effect have fluctuations in the currency upon the prices of commodities?
II. How do fluctuations in the currency influence the foreign exchanges?
III. What effects are produced by the substitution of paper-money for coin?
IV. Ought bank deposits to be regarded as currency? and
V. Ought bills of exchange to be regarded as currency?

I. We inquire,—*What effect is produced on the prices of commodities by fluctuations in the currency?*

As the price of a commodity is the quantity of money for which it will exchange, it seems reasonable to suppose that an increase in the quantity of money will tend to advance prices. The doctrines put forth by the Manchester Chamber of Commerce were,—that great changes had taken place within a

few years in the prices of commodities—that these changes had been produced by fluctuations in the currency—and these fluctuations in the currency had arisen from the conduct of the Bank of England: these opinions were maintained by Mr. Smith* and Mr. Cobden, two directors of the Chamber, in their evidence before the committee. Mr. Norman thinks that the Manchester statements are exaggerated, but admits that the effect of a contraction of the currency will be to reduce prices.

"2198. A real effect upon the exchanges could not be produced without a fall of prices; do you concur in that?—I conceive that the effect of a contraction is to discourage importation and to encourage exportation; and that prices are the medium through which this effect is produced.

"2199. That fall of prices must operate as a loss upon the holders of goods?—Yes."

Mr. Horsley Palmer gave the following evidence before the committee of 1832:—

"679. Then the object of reducing the circulation is the reduction of prices?—It is the natural consequence of an unfavourable exchange.

"683. Could a reduction take place here without a great reduction of prices?—I think eventually prices must fall."

In the pamphlet before us, Mr. Samuel Jones Loyd uses similar language:—

"The connection between fluctuations in prices and variations in the amount of the circulating medium is a question of extremely difficult solution in its detail: and, probably, after the most laborious investigation of it, we can only come to the conclusion, that the immediate effect upon prices of any variation in the amount of the circulation may be over-estimated, whilst there undoubtedly exists a very intimate connection between them. Indeed, unless this be admitted, the whole doctrine of regulating the circulation by reference to the state of the exchanges falls to the ground, and we are left without any principle upon which the management of the circulation can rest."

The speech of Mr. Hume is founded upon the same principles; and he has collected from public documents a vast number of facts, showing the correspondence that has existed between fluctuations in the currency and fluctuations in prices, chiefly with reference to the public securities.

* See Mr. Smith's Evidence, Questions 6—10.

"He complained that the Bank of England, by lending money at times at low interest, often lower than the market price, on stock and other securities, did, in reality, urge to over-speculation by merchants, and to over-issues of paper by joint-stock banks; and, having got the country into great excitement of high prices and apparent prosperity, altered their plan when their coffers were emptying, reduced their discounts, raised the interest, and, to prevent the exhaustion of their bullion, suddenly cramped the whole of the commercial transactions of the country."

Mr. Tooke is the only witness who questions this doctrine; and he makes admissions which, we think, completely overthrow his own opinions. In answer to the question, No. 3297, proposed by Mr. Hume, "What is it then that does affect prices?" he answers, "The cost of production limiting the supply on the one hand, and the pecuniary means of the consumer limiting the demand on the other." We should infer from this, that the increase of the currency would give increased pecuniary means to the purchasers, and hence cause an increased demand that would tend to advance prices. Again, in reply to No. 3300, proposed by Mr. Warburton:—

"Suppose the supply of the precious metals in the world to be increased, and to go on doubling and trebling, and so on, would not the prices of commodities estimated on the precious metals go on doubling and trebling, and so on, in proportion to the increase of the precious metals?—Yes, they will, undoubtedly: and I took for granted that we were speaking of alterations in prices as distinct from those of bullion value in the commercial world."

Now, if an increase in the quantity of money in the whole world would cause an advance of prices in the whole world, then we should infer that an increase in the quantity of money in any particular country would cause an advance in the prices of commodities in that country. It matters not, as far as regards the objects of this inquiry, whether commodities are said to get dearer or money to get cheaper. If the same commodity will exchange for a greater quantity of money, the price is advanced.

In these replies Mr. Tooke seems to have intimated the way in which an increase of money tends to advance prices; that is, by increasing the demand: an increase of money gives men the means and the inclination of purchasing an

additional quantity, either for consumption or speculation, and the increased demand advances the price. It is no objection to this doctrine to say, that prices may advance from other causes than an increase of the currency; no doubt they may. But this is not the question. The question is, whether the abundance of money is not one cause. It should be recollected, too, that money always acts intermediately. When money is abundant, people are more disposed to make purchases or engage in speculation; but the particular direction in which the money may be employed, depends upon a variety of circumstances. Thus, Mr. Tooke states, that the fall of prices which took place in the latter end of 1836, arose from large importations; but we may ask, was not the previous abundance of money the cause of those large importations? Again, it has been maintained that the panic of 1836 arose from the expansion of American credit; but, we may ask, was not the abundance and cheapness of money one cause of that expansion of credit? Money always operates, in the first instance, by producing a moral effect; by a moral effect, we mean an effect upon the minds of men. Mr. Norman says, he thinks very little of the moral effect of an increase in the quantity of money; and yet, in a subsequent part of his examination, he admits that a contraction of the currency produces caution, and this increases the tightness in the money market. Now, what is caution but a moral effect? and, if a moral effect be produced by the scarcity of money, why not by its abundance? In fact, fluctuations in the currency can produce no physical effects without, in the first place, producing a moral effect. Abundance of money makes men buoyant, sanguine, and enterprising, and hence they go into speculation. The feeling becomes contagious, and sometimes a whole nation goes mad. On the other hand, a scarcity of money makes men cautious, timid, and apprehensive, and hence they prepare for the worst that can come upon them. In consequence of these mental affections, fluctuations in the currency often produce greater effects than the mere amount of the fluctuation would lead us to expect. We conclude, then, that an abundance of money has a tendency to raise

the prices of commodities; and we think it no objection to this doctrine to say, that, in some cases, there have been increased issues of money without a general advance of prices; for sometimes these increased issues may not be employed in commerce, but be employed in domestic investments or foreign securities. Nor do we think it any objection to this doctrine to prove, that the advance in the price of any particular commodity may sometimes be accounted for by some peculiar circumstances connected with that commodity. We believe this is generally the fact. Speculators and merchants have always some peculiar reason for dealing in one commodity rather than another; but the facility of obtaining the money is the moving cause of the speculation, and the price of each commodity will advance according to the quantity of money that is brought to bear on that particular market.

But when we contend that an increase in the quantity of money has a tendency to raise the prices of commodities, we must be understood to mean that the quantity of commodities remain the same as before. If there be an increased quantity of commodities brought to market, and money is drawn out from the banks to circulate these additional commodities, it will not cause any advance in price. We cannot better explain our meaning than by referring to the case of Ireland. The evidence given before the Parliamentary Committee of 1826 fully explains the state of trade in that country. The corn trade and the bacon trade commence in the months of September and October. From these months, until the following January, the notes in circulation continue to increase, and from that period they gradually diminish. This process is as follows:—A person goes from London with 1,000*l.* to engage in the Irish corn trade. He may obtain from the Provincial Bank, in Broad Street, a letter of credit upon one of its branches (say Cork) for 1,000*l.*: he will receive it at the branch in provincial bank notes, which he will distribute among the farmers in the purchase of corn. The farmers will keep these notes in their possession until the end of the year, when they have to pay their rent. The

dealer having shipped his 1,000*l.*, worth of corn, may draw a bill upon London for the amount, which he may discount at the branch, and thus obtain another 1,000*l.*, with which he may purchase another supply of corn, and he may repeat this operation as often as he pleases. The farmers will keep these notes in their possession until January, when the agents come round to collect the rents. The agents will receive these notes from the farmers, and take them to the bank for a letter of credit on London or Dublin, which they remit to the landlord. Thus we find there is a large increase in the circulation; but as this is caused by the increased quantities of commodities brought to market, it has no effect upon prices. The price of corn in Ireland is governed by the price at which it can be sold in England. If the price be high, a large amount of notes will be drawn out of the bank: but the increased issue of notes is not the cause of the high price, but the high price is the cause of the increase of the notes. Confirmatory of this statement, we have extracted from the returns attached to the evidence an account of the circulation of notes in Ireland on the first week in September and in the last week in December for the years 1837, 1838, and 1839.

Circulation of the Bank of Ireland, of the Bank of Ireland Branches, and of the Joint-stock Banks in Ireland, in the first Week of September and the last Week in December of the Years 1837, 1838, and 1839:—

	Total Circulation of Bank of Ireland.	Bank of Ireland Branches.	Joint-stock Banks.
	£.	£.	£.
September . . . 1837	2,940,400	1,066,600	1,524,476
December . . . 1837	3,265,700	1,342,300	2,204,286
September . . . 1838	3,067,900	1,275,600	1,881,085
December . . . 1838	3,474,500	1,695,600	2,972,034
September . . . 1839	2,980,700	1,217,400	1,987,068
December . . . 1839	3,192,200	1,464,000	2,629,205

We observe, too, by these returns, that the circulation of Scotland is uniformly at its lowest point in March, and its

highest point in November. The country circulation of England is usually the highest in April and the lowest in August. It cannot be supposed that the prices of all commodities vary every year in the same proportion. The circulation of the English country banks, like those of Ireland and of Scotland, is operated upon by local demands; and hence the issues of country banks have no effect upon prices. While, on the other hand, the notes of the Bank of England, being issued against deposits of gold, or in purchase of Government Stock or Exchequer Bills, must have a tendency, by increasing the demand, to cause an advance in the prices of commodities.

II. Our next inquiry is,—*In what way does an extension or contraction of the currency operate upon the foreign exchanges?*

The foreign exchanges are regulated mainly by the balance of trade. If we import more commodities than we export, we must pay the balance in the precious metals. Money may also be exported for other purposes than as payment for commodities imported; such as for subsidies to other powers, for rents to absentee landlords, or for permanent investment in foreign securities. Now, in what way can an expansion of the currency render the exchanges unfavourable? If this extension of the currency raise the prices of commodities, as we have seen it will, its tendency will be to encourage importation, as foreigners will find this a good market for their goods. It will at the same time check exportation, as foreigners will not be disposed to purchase our commodities at an advanced price. This will cause the balance of payments to be against us. Besides, the increased quantity of money put into circulation will lower the rate of interest, and hence many parties may send money abroad to be invested in the foreign funds, in order to obtain a higher rate of interest than can be obtained at home. There are many other indirect ways in which an alteration in the amount of the currency affects the foreign exchanges.

"3769. Mr. *Warburton*. Would the raising of the rate of interest produce any effect upon the exchanges, unless it occasioned a diminution in

the application for discounts, and, therefore, in the amount of the circulation?—It would produce a decided effect upon the exchanges, at the same time that there would in all probability be an increase in the amount of the issues through the medium of discounts; the effect upon the exchanges of a rise in the rate of interest would be that of inducing foreign capitalists to abstain from calling for their funds from this country, to the same extent as they otherwise might do, and it would operate at the same time in diminishing the inducements to capitalists in this country to invest in foreign securities, or to hold foreign securities, and it might induce them to part with foreign securities, in order to make investments in British stocks or shares. It would likewise operate in restraining credits from the merchants in this country by advances on shipments outwards, and it would have the effect of causing a larger proportion of the importations into this country to be carried on upon foreign capital."—*Tooke.*

We see, then, that an alteration in the quantity of the currency will affect the foreign exchanges in two ways. An increase in the quantity will tend to advance the prices of commodities, and thus check exportation, and encourage importation; and it will lower the rate of interest, and thus cause a transfer of capital for investment in foreign securities. Seeing, then, that we have the power of thus influencing the exchanges, the question arises, ought we, as a general principle of action, to make use of this power?

It strikes us at once that this is an operation altogether at variance with the ordinary functions of money. The design of money is to effect the exchanges of commodities—to operate as a measure of value between different commodities, and thus to show their relative values. And it ought not only to show the relative value of different commodities at the same time, but also the value of the same commodity at different times. All writers on monetary science have held that the measure of value ought to be free from change; and they state that the precious metals were originally selected for this reason, because they possessed more than any other commodity the quality of permanency. It seems as necessary to have a standard of value as a standard of weight or of measure. And were the yard measure or the bushel measure to be perpetually changing, it could not produce greater confusion or injustice than if the standard of value were perpetually

changing. On this ground it has been contended that corn would be a very improper standard of value; for as, annually, the crops vary very much, an article that is worth one bushel of corn this year may be worth two bushels the next. But if the quantity of money were to be increased or diminished from year to year, with the view of influencing the exchanges, then it would become as improper a standard of value as corn. Indeed, during the last few years, the quantity of gold in the Bank of England has fluctuated more than the produce of the harvests. There are various circumstances that influence the prices of commodities; such as an increase or a diminution of the supply—a state of peace or war—the opening of new markets—the discovery of cheaper modes of production, or the substitution of a rival commodity. Now it seems proper that these legitimate causes of an alteration of prices should not be counteracted by an artificial operation on the currency: the natural price of a commodity is an indication of the relative quantity in the market; and when the price advances, it is notice to the consumers to reduce their consumption. Suppose, for instance, we had a scanty harvest, the price of corn would of course advance; this advance of price would induce many people, from motives of economy, to diminish their consumption, and to use instead cheaper kinds of food; and thus the quantity on hand would be eked out to the next harvest. But suppose the quantity of money were to be forcibly contracted, and corn kept as cheap in this season of scarcity as it had been in the previous year, then consumption would not be diminished; the whole stock might soon be exhausted, and, before the next harvest, the nation might starve. Thus, artificial operations on the currency might counteract the effect of the natural causes of alteration in prices, and also, by operating unequally on different commodities, might derange their relative values.

III. Our next inquiry is,—*What effect is produced on the currency by the substitution of paper money?* The following question was put to Mr. Loyd:—

"2654. What, in your opinion, is the sound principle according to

which the circulation should be regulated?—A metallic currency, I conceive, by virtue of its own intrinsic value, will regulate itself; but a paper currency, having no intrinsic value, requires to be subjected to some artificial regulation respecting its amount. The use of paper currency is resorted to on account of its greater economy and convenience, but it is important that that paper currency should be made to conform to what a metallic currency would be, and especially that it should be kept of the same value with the metallic currency, by being kept at all times of the same amount. Now, the influx and efflux of gold is the only sure test of what would have been the variations of a metallic currency, and, therefore, I conceive that that constitutes the only proper rule by which to regulate the fluctuations of a paper currency."

It is assumed in this reply that paper is a substitute for coin; that the forty millions of bank notes now circulating in England, Scotland, and Ireland, represent forty millions of sovereigns; and that were the notes abolished, their place would be supplied by an importation of forty millions of gold. These points remain to be proved. We are inclined to believe, with Sir Robert Peel, that were these notes abolished, their place would be supplied chiefly by bills of exchange, or some other description of paper money. Secondly, it is assumed that a purely metallic circulation would perpetually vary in amount, according to the fluctuations in the foreign exchanges; that were six millions of gold imported, it would add six millions to the amount of the currency; and, on the other hand, if six millions of gold were exported, it would lessen the currency by six millions; this, too, remains to be proved. Even if gold bullion were used as currency, we see no reason why all the gold bullion in the country should be used as money. Gold is an article of trade, and why, therefore, should every additional quantity imported be added to the quantity used as money? But we do not use bullion as money, but coin; and it is clear that bullion cannot be used as money until it is coined. The privilege of coining money belongs to the sovereign. France has a silver currency; does this increase or diminish in quantity according to the exportation or importation of silver? So far from this being the case, France has been adduced as a proof of the permanency attending a metallic currency. What proof

then have we that, were our currency purely metallic, it would increase and diminish in quantity according to the fluctuations of the exchanges? Thirdly, it is next assumed that a paper currency ought to be so regulated as to make it correspond in quantity with the assumed fluctuations in a metallic currency. If it could be proved that a purely metallic currency would perpetually fluctuate with the foreign exchanges, so far from regarding such a state of things as a state of perfection to which the nation ought to aspire, we should regard it as a calamity that would call loudly for legislative remedy. Granting, however, that this would be the case, are we bound to make the paper currency correspond exactly to the supposed changes of a metallic currency? It seems a great advantage to have a currency that is capable of expanding and contracting in all the localities throughout the kingdom, exactly as the wants of trade may require.*

* This advantage could not be obtained by a metallic currency. During some months of the year more money is required than in others. If, then, our currency was equal to the demand in those months when it was most required, it would in other months be in excess. This is the case with our silver currency. At the present moment the London bankers have large amounts of silver coin, which they have taken from their customers, but which the Bank of England will not take from them. Hence it remains unproductive in their vaults, and there it must remain until a revival of trade shall occasion a demand for its circulation. Attached to the Evidence is a monthly average return of all the notes in circulation in England, Scotland, and Ireland. In the month of April, 1837, the average circulation was 38,188,137*l.*; and in the following June it was 34,877,065*l.* Here was a reduction in the course of two months of 3,311,072*l.* Now, if these notes had been issued by a sole bank of issue, whose only province was to give notes for gold, or gold for notes, what would have been done with this surplus? Under the present system they are returned to the banks that issued them, and are thus withdrawn from circulation; but this could not be done under the proposed system. Were the bank to give gold for these notes, the gold would remain in circulation, and thus the amount of the currency would be the same. Hence, then, would ensue a redundant circulation, low rate of interest, and facilities for speculation—the very evils that one bank of issue is intended to prevent. It may be said that this abundance would turn the exchanges, and then the gold might be exported. But this requires some time, and the gold might be exported, and the currency thus be contracted, precisely at the season when the periodical expansion of trade would require an increase. It is clear, that if the circulation is to fluctuate in amount, according to the demands of trade and agriculture, that it must be issued upon what Mr. Loyd calls banking principles; that is, the banks of issue must also be banks of discount and deposit. If however it be

And why should we forego these advantages merely to make our paper currency correspond with the supposed changes of a metallic currency, without any satisfactory proof that the paper currency supplies the place of a metallic currency, or that a metallic currency would undergo these changes?

"3743. Are you of opinion that a mixed circulation of paper and coin ought to fluctuate in amount in the same manner and proportion as a metallic currency, if we had a metallic currency, would fluctuate?—I am not at all clear that in a mixed circulation of coin and paper it is desirable that the fluctuations in the amount of the aggregate paper circulation should vary exactly with the variations in the amount of bullion; on the contrary, I believe that a variation in the amount of the circulation, corresponding exactly, or as nearly as might be, with the variations in the amount of bullion, would be exceedingly inconvenient, and occasion very frequent and sometimes violent oscillations in the rate of interest, or, as it is technically called, the money market.

"3744. If the paper circulation is to be preserved constantly conformable in value to gold, must it not conform in quantity constantly also to gold?—Not at all; as long as the paper is strictly convertible into gold, it cannot be said that the value of the currency is impaired; there may be a very considerable occasional demand for the export of the precious metals, without any ground of inference that the originating cause of it has been any excess of the circulation of this country; with a sufficient reserve of bullion on the part of the bank, the probability is, that the gold would in such a case return, and that there may have been no intermediate disturbance of that amount of the circulation, which was previously not in excess, as compared with the ordinary transactions of the country.—*Tooke.*

"But we are told that were the circulation wholly metallic, it would vary in this way so as to cause a perpetual fluctuation in prices, and that hence a paper circulation ought to be made to vary so as to correspond. We dispute both the reasoning and the fact. Admitting the fact, that a metallic currency would produce this eternal fluctuation in prices, we contend that this would be no reason for making a paper currency to fluctuate in the same way. A paper currency is employed

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desirable that the circulation should fluctuate according to the lodgments of the precious metals irrespective of the demands for its use, then it is clear, that even supposing the foreign exchanges should never vary, the circulation would at some portion of the year be deficient, and at other periods be in excess. It must be admitted that a purely gold currency (supposing it could be maintained to the same amount as the notes) would be liable to the same kind of inconvenience, though not to the same degree, as if the notes should be issued, not only against coin, but also against bullion.

to obviate some of the inconveniences of a metallic currency, and why not obviate this inconvenience? Will it be denied that a perpetual fluctuation in the prices of all commodities is an inconvenience? And if a paper currency can be so managed as to obviate this inconvenience, ought it not to be done? But we dispute also the fact. We do not admit that a currency, purely metallic, would fluctuate in the mode described. If a large quantity of gold and silver bullion were imported, it would not form part of the currency until it were converted into coin; while in the state of bullion it would have no more effect upon prices than though it had existed in the form of gold watches and silver spoons. To convert it into coin would occupy time—and afterwards it must be diffused through the country before it would cause a general advance of prices; and before this was effected an unfavourable turn of the exchanges might cause it to be again exported. But under our present system the gold and silver imported are taken to the Bank of England and instantly turned into bank notes. This has the same effect as if the bullion could be *immediately* coined into sovereigns and shillings, and possessed also the rapidity of diffusion that is peculiar to paper money. It is clear, therefore, that to regulate our paper money by the foreign exchanges, is not to make the currency fluctuate in the same way as it would fluctuate in case it was wholly metallic."—*Gilbart's Inquiry, &c.*

IV. *Ought deposits in the Bank of England to be regarded as money?*

In discussing this question it will be necessary to inquire, 1st. Whether deposits perform the office of currency, and to what extent? 2nd. Whether there is any difference between the deposits in the Bank of England and those in other banks? 3rd. Whether the fluctuations in the deposits in the Bank of England are a fair criterion by which to judge of her previous issues? 4th. Whether the Bank of England is justified in employing her deposits? 5th. What is the influence of deposits upon the prices of commodities?

1st. *Do deposits perform the functions of currency, and to what extent?*—We use the word currency as synonymous with the word money, and including only coin and notes payable on demand. The ambiguity of the word currency is perhaps the main cause of the difference of opinions that have been expressed on this subject. If the word currency include only bank notes and coin, then deposits are not currency; but if

the word be extended so as to include deposits, then the word currency becomes a generic term, and includes various species of currency, as a coin currency, a note currency, and a deposit currency. But this alteration in the meaning of the word would not make any alteration in the question, Whether the deposits performed the same functions as bank notes? Mr. Loyd says that deposits are not currency. "Money," says Mr. Loyd, "is marked by certain distinguishing characteristics which deposits do not possess." The question is not, whether deposits and circulation possess the same attributes, but whether they do not perform the same functions. Now it is undeniable that in some respects they do. If two persons keep an account at the same bank, a debt due from one to the other may be discharged by a transfer in the banker's books. And when a number of bankers meet together and settle their accounts at the clearing-house, this amounts to nearly the same thing, as far as regards their transactions with each other, as if all these bankers formed only one bank, for the amount of bank notes with which they settle their balances must be small as compared with the total amount of the payments.* But are we justified by this in considering the whole amount of deposits in the Bank of England as so much currency? We think not. "Circulation," it has been said, "are notes out of the bank, and deposits are notes in the bank, and, therefore, they are both currency." This is sheer mystification. A deposit is a loan. We do not deposit money in a bank in the same way as we would deposit a horse in a livery stable, with the expectation of receiving the same again when we call for it. A bank deposit is a loan to the bank, but as this loan is transferable, it may in this way perform some of the functions of money. But the extent to which this is done must be measured, not by the amount of the deposits, but by the amount of the transfers.

* In the *Atlas* newspaper of January 17th, 1830, there is a plan of a National Bank, to be founded entirely on the principle of deposits. "It is proposed that the use of the present circulating medium, or of symbols of property in the form of bank notes, &c., be discontinued, excepting in small transactions, and that all payments of sums above five pounds be made by transfers of ledger credits only."

2nd. The next inquiry is,—*Whether there is any difference between the deposits in the Bank of England and those in other banks, with regard to their efficiency in performing the functions of currency?*—We think not. It seems to us that the deposits in all banks, whether issuing or non-issuing, are upon the same level in this respect. Some of the witnesses contended that when deposits are made in a banker's own notes they are then currency, but not otherwise. There appears to be no foundation for this distinction. Deposits, under whatever circumstances they may have originated, must all have the same characteristics and capabilities. The extent to which they perform the functions of currency depends upon the extent of the sums that are transferred from one class of depositors to another. Those deposits only are thus transferred which are payable on demand. This class of deposits, therefore, can only be considered as currency, and that not to the extent they are capable of being employed, but to which they are actually employed. One class of the deposits in the Bank of England consists of the bank notes lodged by the London bankers in the evening and drawn out the following morning. These are clearly circulation, and classing them with deposits at all is a mere matter of book-keeping. Mr. Horsley Palmer considered that nearly a third or a fourth of the deposits in the bank might be regarded as circulation.

3rd. A third inquiry is,—*Whether the rise or fall of the deposits is any criterion by which to judge of the increased or diminished issues of the bank?*—This is, in fact, the practical application of the doctrine respecting the identity of deposits and circulation. Those who accuse the Bank of England of excessive issue in the year 1835 contend that the deposits should be taken into account and regarded as money. On the other hand, the defenders of the Bank of England say, look at the circulation—there is a positive diminution—and you have no right to look at the deposits. Now we contend that deposits are not money, though some portion of them may perform the functions of money. But, nevertheless, we feel constrained to admit that the deposits are a means of measuring the liberality of the Bank of England with regard

to her issues. All the deposits must consist of gold or bank notes. Now, if we take any two periods, and find that at each of those periods the amount of the circulation and of the bullion are the same, but that the deposits have increased, it is an undeniable evidence that between those periods the bank must have increased her issues. It is a mere subterfuge to say that deposits may arise from loans or from the discount of bills, granting the loan or the discount was, on the part of the bank, an act of issue for notes to that amount. If the bank grant loans or discount bills, the party may do what he pleases with the notes he thus obtains. If he lodge them on deposit, it is a voluntary act. An increase of deposits, *cæteris paribus*, shows an increase of issue. A diminution of deposits, *cæteris paribus*, shows a diminution of issue.

4th. Another inquiry is,—*Whether the Bank of England ought to make use of her deposits?*—We reply, yes, provided the demand be made by the public; but the bank ought not to anticipate the demand or to issue her notes merely because she anticipates or fears that the circulation may become too much contracted. It is not likely that deposits will ever be lodged to the extent of causing an undue contraction of the currency. But should this be the case, the increased value of money would immediately cause the deposits to be again withdrawn, or else would increase the demand for discounts. In the questions referring to the advances on the West India Loan it is presumed that the deposits were made in the first instance, and that afterwards the bank invested this money in securities. The fact is the reverse. The bank issued her notes on securities in the first instance, and then these notes were lodged on deposit. Where the bank made the payment on the loan the increase of securities and of deposits was of course simultaneous. It appeared that these advances were made chiefly on bills of exchange. Had the bank not made her advances at a low rate of interest, these bills would have been discounted. But no one would discount a bill at four per cent. if he could obtain a loan upon it until it became due at three and a half per cent. Had the bank not made these advances at all, the increase of deposits by the earlier payments

on the loan might have been re-issued before the later payments became due, and thus all the payments might have been made without causing an undue contraction of the currency.

5th. A further inquiry is,—*What effect the deposits in the Bank of England have upon the prices of commodities?*—Mr. Hume asked Mr. Loyd, "Is it your opinion that it is the circulation alone that affects the prices of commodities and the rate of interest, and that the deposits have no influence whatever upon them?" Mr. Loyd replied, "It is not my opinion that the circulation is the only thing that affects the prices of commodities and the rate of interest." This reply leaves that portion of the question which refers to the influence of deposits wholly unanswered. Subsequently, in reply to a question from the chairman, he states, "I conceive that fluctuations in the amount of the deposits will not necessarily produce corresponding fluctuations in the prices of articles." It may be observed that Mr. Loyd does not say that fluctuations in deposits will not produce fluctuations in prices, nor that they will not produce corresponding fluctuations in prices, but that they do not *necessarily* produce corresponding fluctuations. We leave our readers to conjecture what are Mr. Loyd's opinions on the subject. It seems to us quite obvious that when the deposits are increased by the overflowing* of the circulation, those deposits must have a very considerable influence upon prices. We have stated that an increased circulation affects prices by occasioning an increased demand. Now, if a party lodges his notes in the bank on deposit, with a view of employing them as soon as he can find a profitable investment, they will clearly have the same effect upon prices as though he retained them in his own possession. The extent to which prices may thus be affected will depend upon the amount which the depositors have the

* The effect of an increase of the circulation upon the deposits is shown by the increase of the deposits, and especially of the bankers' deposits, immediately after the payment of the public dividends. On January 7th, 1840, the bankers' deposits were 396,000*l.*, and the total private deposits 3,792,000*l.* By the following week (after the payment of the dividends) the bankers' deposits amounted to 1,550,000*l.*, and the total private deposits to 5,053,000*l.*; the circulation having also, in the meantime, increased from 15,547,000*l.* to 17,816,000*l.*

power and the inclination to employ in the purchase of commodities, and also upon the exertions they may make to obtain suitable investments.

To illustrate these propositions, let it be supposed that a man sells 1,000*l.* stock, and receives for it a 1,000*l.* Bank of England note; this gives him a power of purchase to the extent of 1,000*l.* He may buy cotton or tea, or American bonds, or anything he likes, to the extent of 1,000*l.* If he is anxious to lay out his 1,000*l.*, and goes about inquiring the prices of these commodities, and making biddings for them, that will tend to advance the prices of these things, even though he makes no purchase. The more biddings for an article at an auction, the higher the price will advance, though there can be but one purchaser. But if he is not anxious to spend his 1,000*l.*, and makes no effort to do so, he will not advance prices; and this will be equally the case whether he keep the 1,000*l.* in his pocket or lodge it in the Bank of England; but, in the former case, it will be called "circulation;" and in the latter case, it will be called "deposits." When he has made a purchase, of course he draws out his "deposit" (if he had lodged it in the bank), and then his 1,000*l.* again becomes "circulation."

But suppose that, instead of lodging it in the Bank of England, he lodged his 1,000*l.*, with a private banker; in this case, as in the former, he would retain the power of purchase to the extent of 1,000*l.* and the 1,000*l.* note would, in the returns of the Bank of England, be called "circulation." But the banker would not lock up the 1,000*l.* in his till. He would keep, perhaps, 200*l.* in his till, and invest the remaining 800*l.* in discounting bills, or in some other securities. Here we immediately see a difference. When he lodged his 1,000*l.* in the Bank of England, it increased the deposits to that extent, and he had a power of purchase to the amount of 1,000*l.*: when he took it from the Bank of England, and lodged it in a private bank, he still retained the same power of purchase; but, in addition to this power, 800*l.* of the money went into active circulation as currency, and 200*l.* remained as dead circulation in the banker's till.

But the Bank of England may employ these deposits as

well as the private banker, and will not be under the necessity of keeping any reserve in her till, as she can pay off the deposit in her own notes. In this case, the depositor will have the power of purchase to the extent of 1,000*l.* and the bank will have increased her circulation as well as her deposits by 1,000*l.*

Again, suppose the circulation is at its proper amount, and the bank should purchase a million of exchequer bills, the notes thus put in circulation not finding immediate employment, might be returned to the bank, and be lodged on deposit. Here there would be no increase in the circulation, but an increase of a million in the deposits. A power of purchase to the extent of a million sterling would have been created by the bank, and the efforts of the depositors to make the most advantageous investments would have the effect of advancing the prices of commodities and stimulating a spirit of speculation; and should the bank consider this increase in the deposits a sufficient reason for adding another million to the circulation, this additional million might also come back and be added to the deposits; thus a power of purchase to the extent of two millions would be created, and a spirit of speculation would be still further promoted, without any addition in the monthly returns to the amount of the circulation.

V. *Ought Bills of Exchange to be regarded as Currency?*

With regard to bills of exchange, we hold the same opinion as with regard to deposits; we think they perform the functions of currency to the extent of the actual transfers. The one case is the transfer of a loan—the other is the transfer of a debt, and either one or the other may be employed to make a purchase or discharge an obligation. It is surprising to us that any gentleman connected with Manchester can express any doubt as to the power of bills of exchange to discharge the functions of currency. Only a few years ago, about nine-tenths of the transactions at Manchester were settled by bills of exchange. It was stated by Mr. Lewis Loyd, in 1826, that the circulating medium of Manchester consisted of nine-tenths bills of exchange, and one-tenth bank notes and gold; at pre-

sent the circulation of the Manchester branch of the Bank of England is above 1,500,000*l.* As the bills of exchange have diminished, the bank notes have increased. We shall, perhaps, be told that a bill of exchange is not a bank note. We know that; but it is notorious to every merchant and tradesman in the kingdom that a bill of exchange often performs the same functions as a bank note, and at the clearing-house every day a large amount of bills are discharged by being exchanged against other bills.

Mr. Attwood seemed desirous to show that bills of exchange have a very extensive influence upon prices. We doubt the soundness of this sentiment. Legitimate bills do not precede but follow the transactions on which they are based, and have no more effect on prices than the notes issued by the country banks; but kites, or accommodation bills, drawn for the purpose of raising capital, have the same effect upon prices as an issue of notes by the Bank of England for the purchase of stock or bullion; they increase the demand for those commodities in the purchase of which this capital is employed, and hence raise the price; these accommodation bills are most numerous when money is abundant, as they can then be most readily discounted, and there is then afloat a greater spirit of speculation.

Mr. Leatham has attempted to calculate the amount of bills in circulation, or more properly speaking, in existence, during each year. He, through Lord Morpeth, obtained a return of the number of stamps issued from 1835 to 1839 inclusive, and based his calculations on the supposition that each bill was circulated for half the amount which the stamps would cover, which was considerably under the amount. From the experience of his own bank, compared with that of the principal discount offices in London, he found, that the average date of bills, including foreign and inland, was three months. He then took the whole stamps for a year, and divided them by four, which gave the amount circulating at one time. By a similar induction, he estimated foreign bills at one-sixth of the English, though the proportion was rather greater; and he took the same average for Irish bills in the years where no official returns had been made.

The following is his Statement of the Bill Circulation of Great Britain and Ireland during the Years under-mentioned:—

	1815	1824	1825	1826-7
	£	£	£	£
Bill Stamps for Great Britain, creating the sum	477,493,100	232,429,800	260,379,400	207,347,400
Estimated Irish Bills	79,582,183	38,738,300	43,396,566	34,557,833
Foreign Bills	92,845,880	45,194,683	50,629,327	40,317,072
Total	649,921,163	316,362,783	354,405,293	282,222,305
Average Amount in circulation at one time	162,480,290	79,090,695	88,601,323	70,555,576

The following is a similar Return for the last Five Years:—

	1835	1836	1837	1838	1839
	£	£	£	£	£
British Bills	294,775,269	355,288,900	333,268,600	341,947,400	394,203,000
Irish Bills	51,109,061	59,155,607	54,179,165	54,359,464	55,615,722
Estimated amount of Foreign Bills	57,914,721	69,420,406	65,012,080	66,500,577	75,479,120
Bills created by Bankers compounding for Stamps	1,604,000	2,078,560	2,624,600	2,696,600	3,196,000
Total	405,403,051	485,943,473	455,084,445	465,504,041	528,493,842
Average Amount in circulation at one time	101,350,762	121,485,868	113,771,111	116,376,010	132,123,460

This table, even if correct, which we very much doubt, gives us but little information as to the extent to which these bills perform the functions of currency. A large portion of them, probably, are drawn by tradesmen on their customers, and discounted with a banker, in whose hands they remain till they become due. Here there is only one transfer. Few bills in the present day have more than three or four indorsements. Mr. Lewis Loyd stated, in 1826, that he had seen bills with 120 indorsements. We question if such a bill could now be found, even in Manchester. The extent to which bills of exchange perform the functions of currency depends not merely upon the amount of the bills in existence, but also upon the number of times they are transferred.*

We now proceed to the second part of our subject: to inquire,—*What plans have been proposed for the administration of the currency?*

I. In the first place we must notice that of Mr. Horsley Palmer. It is thus described by himself:—

"The principle, with reference to the period of a full currency, and consequently par of exchange, by which the bank has been guided in the regulation of its issues, always excepting special circumstances, has been to retain an investment in securities, bearing interest to the extent of two-thirds of their liabilities, the remaining one-third being held in bullion and coin; the reduction of the circulation, so far as may be dependent upon the bank, being subsequently solely affected by the foreign exchanges or by internal extra demand.

Mr. Horsley Palmer's plan seems to us to be liable to several objections. First, it is founded on the principle that the amount of money in a country ought to be increased or diminished according as the foreign exchanges happen to be favourable or unfavourable. Thus, all the gold and silver imported is to have the same effect as though it were instantaneously converted into coin and circulated throughout the country. Against these importations of bullion the Bank of England is to issue her notes, and thus for a while we are to have all the practical evils that would result from an inconvertible paper currency. The prices of commodities will rise —speculations will abound—foreign investments take place

* See Mr. Tooke's evidence, No. 3278–3280.

—and the exchanges become unfavourable again when gold is required for exportation—the coffers of the Bank of England are exhausted, and convulsion ensues. This plan, therefore, most effectually insures a frequent recurrence of pressures and panics. We may find some proof of this in the fact of two panics of no short duration occurring within eight years since the plan was first announced. Secondly, supposing the plan were good in principle, the stock of gold is very inadequate. It requires, that at a time of a full currency, that is, when the exchanges have been for a long time favourable, and are just about to turn, the bank shall have treasure to the extent of one-third of her liabilities. This is the largest amount she is expected to hold, and to this amount she is expected to attain only after treasure has been flowing into her coffers for a period so long as to be about to cease. Of the total inadequacy of such an amount to meet the drain that is sure to take place on the return of the tide, we have had abundant proof. Mr. Palmer himself seems to acknowledge that the amount of gold is too small, though he modestly intimates, that if the bank should keep a larger amount of treasure, it ought to be at the expense of other parties.

Several of the witnesses accused the bank of having departed from the rule laid down in 1832; but Mr. Palmer contends that the rule has been observed,* "taking into account the extraordinary circumstances that have intervened." Indeed, as Mr. Palmer, in laying down the rule, introduced the clause, "always excepting special circum-

* We have frequently observed that public writers comment on Mr. Palmer's plan, as though it required that the bank should, *at all times*, hold one-third of her liabilities in gold; and the bank is accused of inconsistency in departing from this rule. This is clearly a mistake. Taking the average returns, the stock of gold in the bank on the 1st of May, 1838, was 10,002,000*l.*, and the liabilities, 30,090,000*l.* Here the bank was in the state required by Mr. Palmer's rule—the bullion being one-third of the liabilities at the time of a full currency. By the 10th of December, 1839, the bullion was reduced to 2,887,000*l.* Yet this was no departure from the rule, for the liabilities were reduced to 22,684,000*l.*; the reduction in the bullion was 7,115,000*l.*; and in the liabilities, 7,406,000*l.* Indeed it is quite possible for the bank to be wholly exhausted of treasure, and Mr. Palmer's rule to be most rigidly observed.

stances," and as the bank herself is the judge of those special circumstances, it would be difficult to convict her of any violation of the rule. The conduct of the bank, however, in regard to the East India deposits, the West India Loan, and the sending of gold to America, is acknowledged to be a departure from the rule, and seems to be impelled by no necessity, and wholly unwarranted by any consideration connected with the public good.

1st. *East India Loan.*—The East India Company had a large sum of money as a deposit in the Bank of England. This money the company was about to withdraw, and lend in the London money market. To prevent this, the Bank of England engaged to allow two per cent. on the deposit, and then lent the money to the bill-brokers at three per cent. The bank directors contend that this was a proper transaction, for, had they not increased the circulation by this amount, the East India Company would have done so. This, however, is no justification. If the East India Company, by withdrawing the deposit, had unduly increased the circulation, and reduced the market rate of interest, it would have been the duty of the bank directors to have counteracted this operation. But so far from doing this, they themselves, for the sake of one per cent. profit, became the agents for this undue expansion of the circulation, although it was contrary to their rules of business, and in violation of the principles by which they professed to be governed.*

2nd. *The West India Loan.*—The conduct of the bank with regard to the West India Loan is alleged to be one cause of the crisis of 1836-7. This was a loan of fifteen millions, raised for the purpose of indemnifying the holders of slaves in the West Indies. We think that, under any circumstances, the taking of fifteen millions from the accustomed channels of circulation, and distributing it in masses to persons who would naturally seek other modes of investment, would have a tendency to produce a speculative feeling in the public mind, and to raise the prices of shares in joint-stock and other companies. So far, therefore, as this feeling arose from the circum-

* See Mr. Page's evidence, No. 916-919.

stances of the loan, no blame is chargeable on the Bank of England; but the charge against the bank is, that, instead of repressing, she assisted this speculative feeling, by making advances, not only upon a deposit of the scrip, but upon stock and all other kinds of securities, and that these advances were made at unusual times, continued for a long period, and at a reduced rate of interest. That the bank did make advances of this kind, and was opened to applications for further advances, are facts that cannot be questioned. The only question is, as to the effect which they produced; and when we find that a rage for speculation seized the public mind immediately after these liberal advances, we seem justified in supposing that this spirit of speculation was the effect of these liberal advances. We think it no refutation of this charge to say that the circulation of notes was not increased, for in the first place the notes that were advanced were returned immediately in payments on the loans, and hence they became public deposits. And, secondly, the fact that the bank was open to application for advances, would of itself have the effect of stimulating speculation. Every person who held stock, exchequer bills, &c., knew that he could get advances from the Bank of England whenever he required them. Hence he might take shares in new companies, or engage in new undertakings with confidence. The money required for these projects, in the first instance, is always small, as the capital is paid up by instalments, and hence no great advances were required from the bank. The spirit of speculation, when once excited, is always contagious, and ultimately becomes uncontrollable.*

The causes to which the panic of 1836-7 have been ascribed by the advocates of the Bank of England, were themselves, as we conceive, the effects of those facilities of obtaining money which the bank had afforded. It has been ascribed to the investments in foreign loans; but if money had not been rendered so plentiful, would those investments have taken place? It has been ascribed to the credits granted by the American houses; but was it not the abundance of money that gave the

* See Mr. Page's evidence, No. 929–943.

American bills so much currency among the bankers and London bill-brokers? It has been ascribed to the formation of new joint-stock banks. But the joint-stock banks were themselves an effect (and, as we think, a beneficial effect) of the spirit of speculation which then prevailed. As a proof of this, the drain for gold commenced in April, 1836, at which period only two of the new joint-stock banks of issue had come into operation.

3rd. *The sending of gold to America.*—The next departure from Mr. Palmer's principle was the sending of a million of gold to America in the year 1838. This is confessedly a departure from the principle which permitted the public to act upon the gold. But, like all other departures from principle, it is said to be justified by the peculiar circumstances of the case. America wanted gold, and we had an abundance; and while we were sending gold to America, we were receiving it from France, so, according to Mr. Norman, our stock was not diminished. But mark the effect on our circulation. For the million of gold we sent to America we had previously issued a million of bank notes. Hence was an increase to our circulation. Having sent this gold to America, the bank replaced it by taking another million from France, for which another million of bank notes was issued, and thus the circulation was still further increased. For the million exported to America the bank would receive bills, falling due at probably about four months from the time the gold was exported. During this interval the increased circulation was operating most injuriously by stimulating to foreign investments, and thus laying the foundation for the pressure of 1839.

In the year 1835 the Bank of England made money cheap, in opposition to the plan of Mr. Horsley Palmer. The bank directors, therefore, and not Mr. Palmer's plan, must be considered responsible for the pressure that occurred in 1836. But in 1837 and 1838 money was made cheap, in conformity with the plan; and during the whole of the latter year the stock of gold was about the third of the liabilities. In this case the plan was acted upon, and the consequence was, that it produced the pressure of 1839. In both these cases the

cause of the evil was cheap money. The only facts adduced in favour of Mr. Palmer's system are taken from the history of the currency from 1830 to 1832. Mr. Loyd has adduced the same facts in support of his own system. It is curious that these facts should be adduced to prove the truth of two contradictory systems. And it is still more singular, that the facts themselves should be matter of dispute. The evidence of Mr. Tooke has taken from both Mr. Palmer and Mr. Loyd every advantage they may claim from this period in behalf of their respective systems.

II. *The plan of making the amount of the circulation fluctuate in exact correspondence with the amount of gold in the Bank of England.*

This rule does not differ from Mr. Palmer's in regard to the expansion of the circulation, but only in regard to the contraction. Mr. Palmer's rule allows the gold to diminish as the liabilities of the bank, including notes and deposits together, shall diminish—but this rule requires that the diminution of gold shall be in exact proportion to the circulation alone. This rule was first announced to the public by Colonel Torrens, in his letter to Lord Melbourne, published in the early part of 1837, but its more prominent advocate recently has been Mr. Loyd.

The advocates of this system say it is better than that of Mr. Horsley Palmer's. This, if correct, is not much in its favour. It has this evil, in common with Mr. Palmer's, that it not only admits, but insures an expansion of the currency to any extent that gold may be imported.

Mr. Loyd contends that a contraction of the currency, immediately on the commencement of a drain, would check the drain, and consequently the contraction would not be so severe as if it were longer delayed. No one has ever denied that a contraction of the currency has a tendency to check an unfavourable course of exchange; but a contraction of the currency is always an evil, and upon this system it would become an evil that must periodically and necessarily occur. The currency ought to be so regulated as to prevent a drain. The

causes of a drain may arise either from a depreciation of the currency, that is to say, from a general rise in the prices of commodities, arising from an excessive issue of money, or from an unfavourable balance of trade. The latter cause cannot at all times be guarded against, but the former may. The plan now proposed, however, so far from guarding against this evil, ensures its frequent recurrence. Mr. Loyd states that the highest point of high prices and speculation is always subsequent to the highest point of the expansion of the currency. There is no doubt of that. In the order of time an effect must always follow the cause. But why permit this expansion? Had this expansion been prevented, consequent excitement would have been prevented. But this system, by making the circulation expand or contract, as the gold may ebb or flow, insures an expansion of the currency every time the course of the exchange may cause a flowing in of gold. When a drain of gold arises from an unfavourable balance of trade, without any depreciation of the currency, then the drain will stop when the balance is paid. In this case Colonel Torrens seems willing, for awhile, "to suspend his obedience to principle," but Mr. Loyd is inexorable.*

This plan is thus open to the following objections:—

1. Upon this plan there must be a perpetual increase and diminution in the stock of gold, consequently a perpetual increase and diminution in the amount of the currency. The increase in the amount of the currency would raise prices and stimulate speculation. The diminution in the amount of the currency would reduce prices and produce distress. And thus there must be a constant alteration from high prices to low prices, and again from low prices to high prices—from speculation to distress, and from distress to speculation.

We have stated that the objection against both Mr. Palmer and Colonel Torrens' plan is, that, during a favourable course of exchange, the currency will be unduly expanded, and hence prices will advance, interest fall, and speculations abound.

* See Mr. Loyd's evidence, No. 2751-2752.

The committee do not appear to have directed their inquiries to this part of the subject; and even some of the questions put by the chairman seem to recognize the principle that the bank is justified in extending her circulation when the exchange is favourable. We consider this principle to be the main cause of the recent panics; and even the advocates o the system seem to *shirk* the defence of this part of its operation. They appear anxious to discuss only the beneficial effects of a *contraction* of the circulation. And even on this part of the system they seem to shrink from a defence of its necessary effects. According to the quotation we have made from Mr. Loyd's pamphlet, the whole of this system must fall to the ground, unless it be true that fluctuations in the currency have an effect upon prices, and yet in his evidence he hesitates to admit that a contraction of the currrency will produce a fall in prices.

"2755. A contraction in the currency operates by checking the export of bullion, and encouraging the export of goods?—Yes, certainly.

"2756. Then that which precedes this state of things is a reduction of prices?—That is true, certainly, upon principle; it is the necessary effect of the contraction of circulation in ultimately reducing prices that constitutes the certainty with which we rely upon the principle; but at the same time, practically speaking, I think it is very possible that that effect may be anticipated by a speculative action upon the exchanges; and I think it not at all improbable that you might have an effect produced upon the exchanges without a preceding effect upon prices."

We should gather from this answer that the doctrine is true upon principle, but not true in fact. It must, however, either be true or not true. If it be not true, then, according to Mr. Loyd, fluctuations in the currency can produce no effect on the foreign exchange. If the doctrine be true, then alternate expansions and contractions of the currency must produce alternate rise and fall of prices. We should like to see how Mr. Loyd and Colonel Torrens would extricate themselves from the horns of this dilemma.

2. But depression of prices and their attendant miseries may not be experienced only when the foreign exchanges are unfavourable. Excessive caution, an apprehension of war, or

political feeling may cause a domestic demand for gold, and this would cause for awhile a contraction of the currency as severe as that which would arise from an unfavourable exchange, and as the bank directors would have no discretionary power, but would be required "to adhere to principle," by giving gold for notes or notes for gold, they could do nothing to assuage these calamities. According to Mr. Loyd, a drain, from whatever cause it may arise, must be met by a contraction of the currency. Mr. Palmer, in laying down his rule, put in a saving clause—"except under special circumstances," but Mr. Loyd makes no exceptions.

3. To carry this system into operation would require a separation of the issuing department from the other departments of the business of the bank, and this would cause still further inconveniences. The management of the issuing department would be exceedingly simple. The office of the directors would be a complete sinecure, and for anything they would have to do, their places might be as well supplied by four-and-twenty broomsticks. A few cashiers to exchange gold for notes, or notes for gold, would be all the establishment required; and, could Mr. Babbage be induced to construct a "self-acting" machine to perform these operations, the whole business of the currency department might be carried on without human agency. But the deposit department would require more attention. "It is in the nature of banking business," says Mr. Loyd, "that the amount of its deposits should vary with a variety of circumstances, and as the amount of deposits varies, the amount of that in which those deposits are invested (viz., the securities) must vary also. It is, therefore, quite absurd to talk of the bank, in its character of a banking concern, keeping the amount of its securities invariable." As, therefore, the deposits might vary, the bank would be a buyer or a seller of government securities, and as these variations are sometimes to a very large amount, the fluctuations in the price of the public funds and of the exchequer bills would be very considerable: thus the property of those who held these securities would be always changing in value. Again, the deposits would be

withdrawn chiefly in seasons of pressure, and the bank would then be compelled to sell her securities. But suppose the scarcity of money should be so great that the securities would be unsaleable even at a reduced price, how then could the bank pay off her deposits?*

Supposing, however, this functional separation to be established, what security, we ask, is there for its continuance? Would it not, like Mr. Horsley Palmer's system, be considered very beautiful until it should be tried, and then be immediately abandoned? Should the directors of the deposit department be unable to sell their securities, and consequently unable to pay off their deposits, is it likely that the directors of the currency department would let the deposit department stop payment, and thus bring immediately a universal panic, and consequently a domestic demand for gold upon themselves?†

4. If the currency were administered upon this principle, the bank would be unable to grant assistance to the commercial and manufacturing classes in seasons of calamity.

Mr. Loyd exclaims, "Let not the borrowers of money, government and commerce, approach, with their dangerous and seductive influences, the creator of money." But with all deference to Mr. Loyd, we contend that it is the province of a bank to afford assistance to trade and commerce in seasons of pressure. Mr. Loyd, as a practical banker, would no doubt afford assistance to his own customers in such seasons; and if this be the province and duty of a private banker, the duty is more imperative on a public banking company, and more imperative still on a bank invested by the legislature with

* See the evidence of Mr. Tooke, No. 3843.

† The London bankers would be in precisely the same state as the deposit department of the Bank of England: they are all holders of government securities, and in a season of intense pressure they would be under the necessity of throwing their securities on the market, in order to meet the drain on their deposits. At present a London banker, when really solvent, may find a refuge in the Bank of England; but under the system proposed, the Bank of England might want a refuge for herself. In case of severe pressure, the Bank of England and the London bankers might all be competing sellers of Government securities, and at a time when the circulation should be so much contracted that nobody would have sufficient money to become purchasers.

peculiar privileges for the public good. Mr. Loyd says, "Let the bank afford this assistance out of her own funds." But under Mr. Loyd's system, she could grant assistance only by selling securities; and what relief would she afford by selling securities with one hand and lending out the money with the other? Besides, is it certain that, under such a pressure as Mr. Loyd's system must occasionally produce, these securities would be saleable at even any price? "But," says Mr. Loyd, "individuals may afford this assistance." In seasons of pressure few individuals have more ample funds than what are necessary for the supply of their own wants. The case of the loan of 800,000*l.* to the Bank of the United States proves nothing. It was merely the substitution in the London money market of bonds, with additional security and a higher rate of interest for the same amount of bills of exchange then becoming due. But this was no proof of the abundance of capital, nor of the capability of individuals to support public credit in all cases without the assistance of the Bank of England. When the distress is caused by a contraction of the currency, it can only be removed by an increased issue of notes. And there are many cases in which assistance can only be effectually rendered in this manner.

We were sorry to observe that some members of the committee uttered, and the witnesses admitted, the sentiment, that under any circumstances, the bank was bound to take care of herself, and to secure the convertibility of her notes, whatever distress it might produce in the country. We are no advocates for an inconvertible paper currency, but we can easily conceive national calamities much greater than a suspension of cash payments on the part of the bank. And we must deliberately condemn the principle, that when the bank has brought herself into difficulties by her own mismanagement she has a right to extricate herself by ruining the country. We consider that any system of administering the currency which prohibits the banking institutions of the country from granting relief to the commercial and manufacturing classes must be unsound. We should condemn

such a system at once, even if we could not detect the fallacies on which it was founded. In political economy we can judge of principles only by their practical effects—and any system which produces these effects must be unsound. When seasons of calamity occur, it is not for the national bank to exclaim, *sauve qui peut.* They ought to co-operate with the government in attempting to relieve the distress and to preserve the tranquillity of the country.*

III. The next plan is that of Mr. Loyd's. This is an addition to that of Colonel Torrens'; the latter plan merely requires that the Bank of England shall make her circulation correspond with her stock of gold, and presumes that this contraction on the part of the Bank of England will cause a similar contraction on the part of the country banks. But Mr. Loyd's plan is the abolition of all the country issues, and the establishment of one bank of issue, not only in England, but also in Scotland and Ireland. We have called this plan Mr. Loyd's; but it was first announced to the public by Mr. Norman, in a pamphlet he published in the beginning of

* It will be inferred from what we have said, that we do not concur in those censures that have been cast upon the Bank of England *by her friends* for the liberality she has occasionally manifested in supporting public credit in seasons of pressure; and we believe that, upon whatever system she may *determine* to act—whether Mr. Palmer's or Mr. Loyd's—she will always feel it necessary to her position to preserve the same course in every future pressure. One evidence of this has recently occurred. The Parliamentary Committee had released the Bank Directors from all allegiance to Mr. Palmer's system, and allowed them to adopt Mr. Loyd's; consequently the directors showed a disposition to act with bowelless severity. On the 15th of October they issued a notice limiting the date of bills to be discounted to sixty-five days, and it was supposed that the notice respecting short loans, if issued at all, would afford but very limited accommodation, especially as in December, 1839, when the less stringent system of Mr. Palmer was in operation, the advances were made only on bills of exchange, and at six per cent. interest. But shortly before the time for issuing this notice two London banks failed, and there was a run upon a third. The notice came out granting loans, not only as in December, 1839, upon bills of exchange, but also upon Exchequer bills and India bonds, and at five per cent. We are not censuring this notice, but it confirms our opinion that any degree of pressure which should cause a few London bankers to stop payment would overthrow any determination "to adhere to principle" which the directors may previously have adopted; they would soon lay aside their philosophy, and act like men of business.

1838: but the proposition attracted little notice until it was adopted and advocated by Mr. Loyd.

This plan is of course liable to all the objections that may be advanced against the plan of Colonel Torrens, and also to additional objections, from the greater extension of its field of operation, and from its interference with existing institutions.

1. Although the whole tenor of Mr. Loyd's pamphlet is in favour of one bank of issue, yet in his examination he seems to avoid the question: indeed, we may observe in general that Mr. Loyd is by no means remarkable for giving direct answers to the questions put by the committee.

"2928. Your principles would lead to the establishment of a single issuing body if you thought the country prepared for it; is that the view that the committee are to understand you to entertain?—In endeavouring to come to a clear understanding of a difficult and complicated subject, I apprehend that the true course always is, first, clearly to understand and ascertain what it is that principle in its pure and abstract form requires; secondly, having formed a distinct view upon that point, then to consider what qualifications a regard to existing interests, or to other considerations of expediency, may require; and, thirdly, to consider how far the principle on the one hand, and the considerations of expediency on the other hand, can be reconciled with each other; or if they cannot be altogether reconciled, what tolerably satisfactory compromise can be proposed."

We differ entirely from Mr. Loyd as to the mode of conducting this investigation. Political economy has no abstract principles. It is not a mathematical but a moral science. All its doctrines are deductions from facts, and the only evidence by which they can be suported is derived from observation, experience, and analogy. To assume *à priori* the existence of an abstract, self-evident principle, and then to require all the practical measures to conform to this principle, is to adopt a course of investigation wholly at variance with the nature of the science.

And here we may remark, that some of the members of the committee seem to have entertained no very correct ideas of the nature of the evidence adapted to the investigation in which they were engaged, and hence the cross-examination of some of the witnesses partook more of a legal

than of a philosophic character. To prove that two historical events sustain the relation of cause and effect, all that can be done is to show that the two events occurred in due order of time, and that there was a natural adaptation in the one to produce the other. Thus, if the Bank of England be charged with producing the panic of 1836, it will be necessary to prove, first, that the bank granted unusual facilities to the borrowers of money in 1835; second, that a pressure occurred in 1836; third, that there was a natural adaptation in the facilities granted by the bank in 1835 to produce such a pressure as that which occurred in 1836. If these three points are established, the charge must be considered as proved. Should an honourable member be unconvinced by this evidence he must remain unconvinced, for the case admits of no higher proof.

2. Mr. Loyd states that he is not prepared to propound any plan for carrying his own principles into effect. He stated this several times in the course of his examination, and Mr. Norman made statements to the same effect.* The following is part of Mr. Norman's examination:—

"2002. Adverting to the principle of the regulation of the circulation which you have advocated in the former part of your evidence, what do you suggest as the best means of carrying that principle into effect?—Supposing that the field is perfectly open, I should say, to have an establishment whose only business it was to issue notes for gold and silver, and gold and silver for notes, and which should hold a sufficient treasure reserve and an unvarying amount of securities.

"2003. In that case, would no other notes circulate throughout the United Kingdom except those of this establishment?—I think no other notes ought to circulate. I conceive the principle of competition in the issue of paper money to be erroneous.

"2004. Would there not be some difficulty in the distant parts of the

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* It certainly seems strange that gentlemen who have paid so much attention to the subject as Mr. Loyd and Mr. Norman have never tried to form a plan for carrying their own principles into effect. What a pity they did not make the attempt. Mr. Norman thinks there would be no difficulty in forming a plan, "provided the field was open." But the field is not open. Any plan now proposed must be adapted, not to an imaginary, but to the existing state of things. What a convenient way this is of getting rid of all practical objections —"I have no plan to propose."

kingdom?—I conceive none; I think that bankers would always find their interest in conveying money to those places where it was most wanted; but if any practical difficulties should be found to arise, they could very easily be obviated by establishing branches.

"2005. Do you contemplate that the notes of this establishment should be payable only in London, or at the branches which you have proposed to establish?—Having never sufficiently thought over a detailed plan, I have not made up my mind upon that point.

"2006. How would you propose, in this case, to withdraw the existing country circulation?—Those are points of detail that I have never fully considered.

"2007. Do you propose, however, that the notes of this establishment should be substituted throughout the country, both for the notes of the Bank of England and for those of all other issuing bodies?—Certainly; I think, on general grounds, that an establishment, such as I propose, should have the exclusive monopoly of issuing paper-money.

"2008. Do you propose that this establishment should be independent of the Executive Government?—I must say, generally, that I have never attempted to draw up a well-digested plan for such an establishment as I propose, and that, therefore, I cannot satisfactorily answer these sort of questions; but, at the same time, I think that, provided the field was open, no great difficulty could occur in forming a plan caculated to carry out the object in view."

Thus we find that Mr. Loyd and Mr. Norman give to their own theories the name of "principles," and assume that these principles are unquestionably "sound;" and that all other opinions are to be condemned or approved according to the degree in which they conform to these "sound principles." But when asked to show how these sound principles can be applied so as to produce any practical good, they tell us that they have never considered the subject, and that they have no plan to propose. Were a mechanical philosopher to advise us to destroy all the steam-engines throughout the country, and to erect a "self-acting" machine in the centre of London for the purpose of performing in a better manner all those services which are now effecting by a variety of machines, he would be expected to show how such a machine could be constructed; how its power could be extended throughout the country, and under what regulations its operations could be applied to the various districts so as to perform the work of the numerous local engines: and if he were to reply, that he

had paid no attention to these points, and had no plan to propose, he would excite but little disposition to destroy the existing machinery, however eloquently he might descant upon the soundness of his principles.

3. In order to prove the propriety of establishing one bank of issue, it became necessary to bring charges against the existing country banks. Mr. Loyd, therefore, accuses the country banks of not regulating their issues so as to make their circulation correspond with the stock of gold in the Bank of England. The rule thus laid down for their government is ably exposed in the "Defence of Joint-stock Banks and Country Issues."

"The rule is, that the fluctuations of the paper issues should be regulated by the fluctuations in the bullion; or more precisely, that the paper money in circulation should be made to increase and decrease by equal increments and decrements with the bullion held in reserve.

"This rule applied to the proceedings of the Bank of England is precise enough, and from the returns we may at once see whether (comparing any two or more periods) it has been observed.

"When, however, it is applied to the case of country banks of issue, it becomes ambiguous: it may mean that their issues ought to vary with the quantity of bullion in their own coffers, or it may mean that their issues ought to vary with the quantity of bullion held by the Bank of England.

"If we take it in the first sense it is intelligible and precise, but we have no evidence before us to show whether the country banks have observed it or not.

"If we take it in the second sense, which Mr. Loyd insists upon, there are numerous objections to it. 1. It is deficient in fulness and precision, leaving us at a loss to tell the exact law of variation intended; whether the country issues are to be increased and diminished by the same amount as the bullion in the Bank of England, or in some other ratio not indicated. 2. The rule is impracticable from the time at which the directive information reaches the parties required to act upon it, as well as from the vagueness of the statements furnished. 3. If it were observed both by the Bank of England and the country banks, the consequence would be a double effect in palpable violation of the very principle on which it is professedly founded. 4. If it had been acted upon during the past year it would have subjected the country issues to all the vicissitudes of the bullion in the Bank of England, which in about ten months ranged from 9,336,000*l.* to 2,522,000*l.*"

4. Mr. Loyd has another charge against the country banks.

It is that they do not make their circulation fluctuate in correspondence with the fluctuations in the circulation of the Bank of England. This accusation is inconsistent with the former, and if one be repelled, the other must be true. Thus, Mr. Loyd uses a double-barrelled gun, and if one charge misses the other is sure to hit. Mr. Bailey observes:—"It is rather hard upon the country banks, in this, the day of their trial before the grand inquest of the Legislature, to arraign their conduct for discongruity with two inconsistent and contradictory rules, against one or other of which they are seen to be caught sinning."

Mr. Loyd is anxious to prove that the expansion and contraction of the circulation of the Bank of England have but little influence on the country circulation. But unfortunately they have considerable influence, both in a direct and in an indirect manner. When the Bank of England contracts her circulation, the rate of interest advances, and those country banks which are in the habit of rediscounting their bills in London find more difficulty in doing so; hence they contract their accommodation to their customers, and this contracts their circulation. The indirect way is through the means of prices and the effect upon trade. Not only general reasoning, but facts, show the influence of the circulation of the Bank of England upon that of the country. Nevertheless, it is easy to fix upon certain periods in which there shall be a contraction of the Bank of England circulation, without a corresponding contraction in that of the country. First—the Bank of England pays the public dividends in January, April, July, and October; and hence the average circulation in these months is greater than that of the two following months. The average circulation in January, for instance, is greater than that of February or March, that of April is higher than that of May or June, and so on; to these quarterly expansions and contractions of the circulation of the Bank of England the country circulation does not correspond. Secondly, the country circulation is usually the highest in April and the lowest in September, and as these variations are produced by local causes, they may or may not corre-

spond with an expansion or contraction of the London circulation. Thirdly, when the Bank of England pursues a career of expansion for a long course of time, and then *suddenly* contracts her circulation, the country circulation will not contract immediately, and it is even possible that for a short period it may go on increasing from the previous stimulus, while the Bank of England is contracting. Fourthly, there may be an increase of domestic trade, and a larger amount of capital may be invested in country banking. Hence may arise a permanent increase in the country circulation, without a corresponding increase in that of the Bank of England. Fifthly, if the Bank of England grants unusual facilities, and makes money cheap in London, but at the same time contrives to withdraw from circulation the notes she has issued, these facilities may, nevertheless, increase the country circulation, even while that of the Bank of England is reduced. This, we imagine, was the case in 1835. The Bank of England, for a large part of the year, granted loans, at a reduced rate of interest, upon all sorts of securities, but the notes thus issued were returned in payments on the West India Loan. But these facilities had nearly the same effect on the country circulation. Those country banks which were in the habit of rediscounting their bills in London could now discount more readily, and on lower terms. Hence they discounted more freely in the country, and issued more notes. On the other hand, those banks which were in the habit of lending the money in London, finding the rate of interest reduced, lent their money at higher interest in the country, and they, too, issued more notes. The contraction of the Bank of England circulation had no effect on the country circulation, so long as the bank was ready to issue more notes at a low rate of interest.

Mr. Loyd has compared the country circulation with the total circulation of the Bank of England, instead of comparing it with the circulation of her branches. The Bank of England issues notes at thirteen places, and while she contracts her London circulation, makes no contraction in the aggregate of her country circulation. Now, with what consistency can the

Bank of England complain of the non-contraction of the circulation of the country banks, when she does not contract the circulation of her own branches? It will be seen by the following table that, during the year 1839, the circulation of the country banks was contracted to a greater extent than that of the branch banks:—

	1839.			
	March.	June.	Sept.	Dec.
	£.	£.	£.	£.
Country Banks .	12,252,621	11,129,717	11,246,084	10,476,920
Branch Banks .	4,163,000	4,127,000	4,017,000	3,850,000

Mr. Loyd has compared the circulation of the Bank of England and those of the country banks at the same dates. Whatever effects a contraction of the circulation of the Bank of England may have on the country circulation, it can hardly be expected to operate instantaneously. In the order of time a cause must precede the effect. Yet to show that a contraction of the bank does not produce a contraction of the country issues, Mr. Loyd compares them at the same period. Not only so, but Mr. Loyd selects particular periods of comparison, according as they may be most favourable to his own views. From some cause, with which we are unacquainted, the average country circulation is at the lowest point during the quarter ending September, while in that ending June it is usually at the highest. Mr. Loyd takes these two amounts, and when he wants to prove that the country banks have too suddenly contracted their issues, he compares the June quarter with the September quarter of the same year. But when he wishes to establish against the banks a charge of excessive issue, he compares the September quarter of one year with the June quarter of a subsequent year. It is clear that the most opposite accusations may be established by this mode of proof. It happens, too, fortunately for Mr. Loyd, that the circulation of the Bank of England has no corresponding variations at the same periods. The circulation in the month of June is usually low, as it immediately precedes the payment of the July dividends. Hence these two periods, June and September, are the periods which Mr. Loyd always selects for making comparisons between the circulation of the Bank

of England and that of the country banks; and he has made no fewer than six comparisons of this kind. This mode of exculpating the bank was, we believe, first practised by Mr. Horsley Palmer, and for which he was very properly admonished in the following language by Mr. Loyd himself:—"We are told that the issues of the bank have been reduced nearly twenty-five per cent. between the month of March, 1834, and July, 1836; but the simple contrast of the state of the circulation at any two periods, *selected with a view of producing a particular result*, is far from being sufficient for the intended purpose."

In some cases Mr. Loyd has been misled by depending upon average returns.

Thus he observes, in his pamphlet:—

"This decrease is too long delayed, and when it does occur, it is sudden and violent. The commencement of the decrease cannot have occurred before the month of June, 1839, fifteen months after the commencement of the decrease of bullion, and six months after the drain had become very severe. The amount of the decrease in the first quarterly returns after its commencement is 1,200,000*l.*, or about one-tenth of the whole amount of the country issues. With these facts before us, can we doubt that experience amply confirms what general considerations would lead us to expect, viz., that a multiplicity of issuers, subject to no general rule for their guidance, must tend to disturb the due regulation of the currency?"

Those opinions were founded upon the average amount of country notes during each quarter. But in the Appendix to this Report, we have the actual amount of country notes in circulation on the last day of every week. From this account we find that the reduction which Mr. Loyd represents as sudden was exceedingly gradual; and, instead of being delayed till the September quarter, was made in the quarter ending in June. The following is a statement of the average returns and of the actual circulation at the periods to which Mr. Loyd refers:—

The Average Returns of the Circulation of the Country Banks for the respective Quarters of the Year 1839, and the Actual Circulation on the last Saturday of each Quarter:—

	March. £.	June. £.	September. £.	December. £.
Average return . .	12,259,467	12,275,818	11,084,970	11,422,445
Actual circulation .	12,252,621	11,129,717	11,246,080	10,476,920

We think, too, Mr. Loyd must have been misled by some average returns when he hazarded the statement, that, in the first instance, a contraction of the circulation of the Bank of England produces an expansion of the country circulation —a discovery that Mr. Loyd may claim as peculiarly his own.

Mr. Loyd states, that one evil of the principle of competition is, that when one banker contracts his circulation, the neighbouring bankers increase their issue, in order to fill up the vacuum which is thus created. If this were the fact, it is difficult to conceive how the total circulation of the country could ever be reduced. But nevertheless the fact is, that the total circulation does vary, not only from year to year, but from month to month. The charge of excessive competition has been more directly brought against the joint-stock banks. If, therefore, the private bankers reduced their circulation, the joint-stock banks would, of course, seize the opportunity of extending theirs. Now, how stands the fact? The average circulation of the private bankers in March, 1839, was 7,340,793*l.*, and by March, 1840, it was reduced to 6,190,306*l.* Now, upon Mr. Loyd's principle, a large increase should have taken place in the issues of the joint-stock banks; and had we not the returns of the actual amount, we could not disprove Mr. Loyd's opinion; but on referring to these returns, we find that the joint-stock circulation in March, 1839, was 4,617, 806*l.*, and in March, 1840, it was 3,895,748*l.* So far from an increase, here is a reduction, and that, too, in nearly the same proportion as that of the private bankers.

5. Mr. Loyd, in all his comparisons, assumes that the country banks can increase or diminish their circulation with the same facility as the Bank of England, and that their

issues have an equal effect in raising prices and influencing the foreign exchanges.

The Bank of England can increase her issues at any time by the purchase of Government stock, India bonds, or exchequer bills. The notes thus issued remain in circulation until the foreign exchanges become unfavourable, when they may be presented for payment in gold. But the country bankers cannot increase their issues in this way. If they purchase Government stock or exchequer bills, it must be with Bank of England notes or gold. Their issue of notes can only be increased in their own district. And here an excessive issue is checked by the notes being payable on demand, by the system of exchanges between banks, and by the practice of allowing interest on deposits. On the other hand, Mr. Loyd assumes that the country banks can contract their issues whenever they please. The Bank of England can contract their circulation by the sale of exchequer bills or stock, but the country bankers have not this power. The country bankers cannot recall the notes they have issued, nor can they, in all cases, refuse to increase their issues. It is evident they have no influence over the withdrawal of their deposits, and were they to issue gold in repayment of deposits, instead of their own notes, the amount of the currency would be the same.

From the explanation we have given of the operations of the country banks, it is evident that their issues can have no effect on the prices of commodities or on foreign exchanges.

As far as concerns the issue of notes payable on demand, the power of the country banks is very limited; for, although they may issue as many notes as they please, yet they cannot keep those notes out; they will return for payment within a very short time of their issue. If the banks lend money to importers of foreign goods, it may cause larger importations, and in this way tend to render the exchanges unfavourable. But these loans cannot be made in notes. Exporters may borrow money to purchase domestic productions for exportation, and hence the notes they may borrow of the bank will circulate in the country. But if importers borrow money, it

is to pay for commodities imported. Notes will not answer their purpose. If they borrowed of the country banks, it would be in the form of bills or credits on London. The importer would authorize his correspondent at Paris or Hamburg to draw upon a London banker on account of the country bank. But this would not put into circulation any amount of notes. If the importer paid this bill himself when it became due, the bank would merely have lent him its credit. If the bank paid this bill without receiving the money from the importer, it would then have lent him that amount of its capital, but it would not have increased the amount of notes in circulation. The bank would then have tended to render the exchanges unfavourable, not through an excessive issue of its notes, but through a *bonâ fide* advance of capital. It is obvious, therefore, that as far as notes payable on demand have any influence on the foreign exchanges, they tend to render them favourable; for the notes are employed to pay for the productions of domestic industry, and these productions may become articles of export.

6. The principal obstacles to the establishment of one bank of issue are thus enumerated by Mr. Gilbart:—

"We think the country banks of issue will have no difficulty in showing that numerous issuers are a check upon each other by the system of exchanges, which cannot apply to a single issuer—that, were there a single issuer, there would be no greater security against undue fluctuations in the amount of currency than in the case of numerous issuers—that a currency conducted on the principle of being regulated by the foreign exchanges is wholly unsuitable to our agricultural, manufacturing, and mining operations—that a currency administered by one bank of issue could not be distributed as at present, in a manner adapted to the local circumstances and districts of the country—that the assistance now given to trade and industry by country bankers would be much curtailed or attended with heavier charges to the parties, operating as a tax upon the middle classes of the community—and that in some districts banks, or branches of banks, would be discontinued from inability to pay their expenses in case they had no longer the profit upon the issue of notes, and those districts would thus be deprived of all banking accommodation. It may also be maintained that a sole bank of issue would soon become more powerful than the government, and might be abused to the worst purposes of either tyranny or faction."

The political evils that may result from a sole bank of issue have been too much overlooked. Were the whole currency issued by a government bank, or by a bank closely connected with the government, might not a foreign power, by getting possession of a few millions of our notes, paralyze the national energies at a moment when the exercise of those energies would be most required? Or might not a political party attempt to embarrass the government by making a run for gold? This would be no new event. A run for gold on the Irish banks took place in 1831, when the government commenced a prosecution against Mr. O'Connell; and another in 1833, during the passing of Earl Grey's Coercion Bill. A run was made on the Bank of England in 1832, during the passing of the Reform Bill; and large sums were drawn in gold from the savings' banks in 1838 by the Chartists, actuated solely by political motives. A contraction of the currency occasioned by these means would admit of no remedy, for it is a part of the system that the bank shall issue no notes except upon a deposit of gold. Another evil would be, that whenever distress was produced by a contraction of the currency, it would be ascribed directly to the government, and hence would ensue popular discontent and insubordination. Sir Robert Peel seemed alive to these dangers. He wished to ascertain if Mr. Loyd were friendly to a government currency, convertible into gold upon demand. Mr. Loyd answered with his usual wariness. Sir Robert was baffled, and gave up the pursuit.*

The sole reason advanced by Mr. Loyd in favour of one bank of issue is, that the circulation of notes would then be regulated by the importations and exportations of the precious metals. Now this principle has never yet been tried. Notwithstanding the recommendations of Mr. Loyd, Col. Torrens, and Mr. Norman, the directors of the bank have never thought proper to adopt it, although they have full power to do so without any Act of the Legislature. Every prudent man, in making an experiment, would do it, in the first instance, upon a small scale, in order to lessen the incon-

* See Mr. Loyd's evidence, No. 2761–2763.

venience of a failure. If, then, it is desirable that this principle should be tried, would it not be better that the experiment should be made, in the first instance, by the Bank of England? Mr. Loyd, indeed, might contend that were the Bank of England to make her circulation correspond with the reduction of gold in her vaults, yet that would not influence the foreign exchanges, because the effect would be counteracted by the increased issues of the country banks. But this is a gratuitous assertion. Col. Torrens is of a different opinion, and so is Mr. Bailey; and surely it would be no act of wisdom to exterminate all the country issues in the first instance, in order to make an experiment which can be made on a smaller scale without any alteration of the law, and under circumstances which, in case of failure, would produce fewer disastrous effects.

7. We have shown that the circulation of the Irish banks always increases from the month of October to the following January, whatever may be the state of the Bank of England with regard to her stock of gold. We shall now lay before our readers a table referring to the circulation of Scotland.

Circulation in Scotland on the last Saturday in March, July, and November, in the Years 1834, 1835, 1836, 1837, 1838, and 1839.

	Number of Banks.	March.	July.	November.
		£	£	£
1834	21	2,834,627	3,094,468	3,497,795
1835	21	2,822,417	3,097,947	3,457,899
1836	21	2,934,292	3,222,142	3,657,431
1837	22	2,875,404	2,962,673	3,560,242
1838	23-4	2,811,377	3,060,199	3,688,410
1839	24 to 28	3,041,545	3,120,183	3,559,599

This table shows us—First, that the circulation of Scotland is at its lowest point in the month of March, is higher in July, and reaches its highest point in November. Secondly, In the corresponding months of different years there is but little

difference in the amount of the circulation. We find that during the course of six years the difference between the lowest and the highest circulation in the corresponding months is very trifling. Thirdly, The increase in the number of banks does not produce a corresponding increase in the amount of notes in circulation. In November, 1834, the number of banks of issue was twenty-one; by November, 1839, they had increased to twenty-eight; yet the circulation at the former period was 3,497,795*l.*, and in the latter 3,559,599*l.* Fourthly, These facts prove that the circulation of Scotland does not produce any effect upon prices, nor consequently upon the foreign exchanges. It is hardly necessary to adduce evidence in proof of the fact that the prices of commodities do not go on increasing from March to November in every year, and if they do not, they cannot be regulated by the currency. Fifthly, This regularity in the circulation shows that it must be governed by some uniform laws arising from the local circumstances or habits of the country, and this we think will always be the case where the banks are passive, and permit themselves to be acted upon by the operations of the trade and commerce carried on in their respective districts. Now, Mr. Loyd's system would destroy all this beautiful regularity. In some years the circulation would advance from March to November, and in other years it would retrograde. The corresponding months would sometimes agree and sometimes differ. The issues of notes would be restrained or increased according to the caprice of the directors of the Bank of England, or the fitful operations of the foreign exchange.

How, then, must the new principle be adapted to the various districts of England, Scotland, and Ireland? Must all the local causes of fluctuation in the currency be controlled? Must the rates of exchange be posted up weekly at the entrance of every market town, to regulate the prices at which commodities are to be sold? Are the people of Scotland to strike out of all existing contracts the clauses which fix the periods at which rents, &c., are paid, and stipulate that these payments shall be made when the foreign exchanges are

favourable? And must the people of Ireland be taught to produce corn and bacon at such seasons only when there is a large stock of gold in the Bank of England?

8. The case of America has been so often adduced by Mr. Loyd, Mr. Norman, and others, as exhibiting the evils of a free system of banking, that it seems to require a special consideration.

It strikes us as extraordinary that, to prove the evils of free trade in banking, we are directed to a country in which free trade in banking has never existed. Neither an individual nor a company can carry on banking in America without the permission of the state. All the banks in America are chartered banks, and differ from our joint-stock banks in many particulars, and especially in the limitation of the liability of the shareholders. Now, admitting that the system of chartered banks has failed in America, it seems very illogical to infer that consequently a system of unchartered joint-stock banks must fail in England. But it is contended that the history of banking in America shows the evil of having numerous banks, and hence similar evils must arise from having numerous banks in England. To maintain this argument, it should be shown that the banks in the two countries are of the same kind, and that the circumstances of the two countries, as far as they bear upon banking, are similar. But is this the case? Besides, we may ask what evils have been produced in America by a number of chartered banks which have not heretofore been produced in England by one chartered bank? Are they charged with issuing their notes to excess? Have not similar charges been made against the Bank of England even by those who are now most clamorous for the extension of her monopoly? Have the American banks suspended payment? And did not the Bank of England suspend payment, and was not her suspension continued for a much longer period? Although it is clear that the American system of chartered banks is inferior to the Scotch system of joint-stock banks, yet it is not so evident that numerous chartered banks are a less evil than one chartered bank.

The argument presumes, too, that in case of free banking the number of banks would be very great. Are we justified in supposing that this would be the case? Theory exclaims "yes;" experience whispers "no." The numerous banks in America are not the result of free trade, but are the result of the acts of the Legislature. The State Legislatures have thought proper to give a large number of charters, and of course there is a large number of banks. Had the charters been fewer, and required higher paid-up capitals, the banks would have been larger and more respectable. The number of banks in England, too, have been the result of the interference of the Legislature. In the renewal of the charter of the Bank of England in 1708 it was enacted, that no other bank having more than six partners should have the privilege of issuing notes. As the growing trade and wealth of the country required banks of some sort, and as banks having more than six partners could not be formed, a great number of banks, each not having more than six partners, rose into existence as they were required by the increasing trade and wealth of the country. Hence, instead of having a small number of large banks, we have had a large number of small banks.

If we look to Scotland, where banking has been free, we find that the total number of private and joint-stock banks is only twenty-eight. Banking has been free beyond fifty miles from Dublin for the last fifteen years, yet throughout that district there are only five banks of issue, with the exception of the Bank of Ireland. In England, where there has been, as we are told, a frenzy in their favour, the joint-stock banks of issue are only ninety-one, and probably they would have been less numerous had not the law excluded them from London. The capital which has been embarked in a number of small local banks would have been invested in large London establishments, and the place of the local banks would have been occupied by branches of the London banks. From these facts it seems fair to infer that some of the small joint-stock banks and many of the private banks will, in the course of the next twenty years, be merged in larger

establishments. The supposition that unlimited freedom of banking would lead to the establishment of an inconvenient multitude of banks, is wholly unsupported by the testimony of experience.

In adducing instances from the history of banking in America, some of the witnesses are guilty of another fallacy. When they wish to prove the expediency of a sole bank of issue in England, they adduce the instance of the former Bank of the United States. Readers unacquainted with the subject are led to suppose that the Bank of the United States was the sole bank of issue in America. Had this been the fact, it would have been, as the lawyers say, a case in point. But how stands the fact? This bank had no more exclusive privileges than the Bank of Scotland. It was merely the government bank, and it had the power of opening a branch in every state of the Union. With regard to the issue of notes, it had no exclusive privileges, but was exposed to fair competition with the other banks. That the Bank of the United States conferred numerous advantages upon the country cannot be doubted by reasonable men; and the destruction of that institution may fairly be adduced as an example of the mischiefs that may be inflicted on a country by a meddling spirit of legislation with regard to banking. Had the law in America been the same as in Scotland, instead of one Bank of the United States, a dozen establishments of equal respectability would probably have been formed, extending their branches throughout the Union, and those mushroom banks that have obtained charters from the State Legislatures would have had no existence. Experience teaches us that whenever banking is free, the result is the formation of a few large banks, each having numerous branches. Local banks having their head-quarters in the smaller towns are always of subsequent growth, and are kept from pursuing a wrong course of action by the system of surveillance adopted towards them by the larger establishments.

Besides the fact of the American banks being chartered banks, and the shareholders being exempt from liability, the

American system is practically defective, in being without that system of exchanges between the banks which exist so beneficially in Scotland and England, and which Mr. Loyd and Mr. Norman have attempted to disparage.

However extraordinary it may appear to English and Scotch bankers, it is a fact that the American banks do not periodically exchange their notes with each other, and pay the difference in gold. When one bank in the course of its business receives the notes of another bank, they are merely carried to account against the bank that issued them. Hence, in all balance-sheets of American banks that we see in the newspapers, we find that "debts due to other banks," and "debts owing by other banks," are two very considerable items. M. Gallatin informs us that the Bank of the United States acquired the ill-will of the State banks by insisting on frequent exchanges. He says, "The manner in which the bank checks the issue of the State banks is equally simple and obvious. It consists in receiving the notes of all those which are solvent, and requiring payment from time to time, without suffering the balance due by any to become too large. We think we may say that on this operation, which requires particular attention and vigilance, and must be carried on with great firmness and due forbearance, depends almost exclusively the stability of the currency of the country."

Language such as this from a man so eminent as M. Gallatin, shows how very far the Americans are behind the English in the practical knowledge of banking. The exchange of notes which is represented by M. Gallatin as being peculiar to one bank in America is common to every bank of England and Scotland; and the operation is performed not merely from "time to time," but at least twice a week; and it is so much a matter of routine that we were totally unconscious of the particular attention and vigilance, the firmness and forbearance, which this process displays. And the effect of these exchanges to secure prudent management on the part of the banks, and to check an excessive issue of notes, is not with us a doubtful matter of opinion, but a doctrine that we consider most firmly established.

In his anxiety to support his own view, Mr. Loyd has quoted the authority of Mr. Webster, "one of the most enlightened and talented members of the American senate," as favourable to one bank of issue. The quotation made by Mr. Loyd from a speech of Mr. Webster expresses no such opinion. Mr. Webster says he is in favour of a national bank, by which he meant probably such a bank as was the former Bank of the United States. That he did not mean his national bank to be the sole bank of issue is evident from his stating, as one of its advantages, that it would restrain the excessive issue of the State banks. If he intended his national bank to be the sole bank of issue, this language would have been absurd.*

The case of America suggests to us a striking difference between theory and experience. The theory of American banking appears very rational. There we behold the State with maternal care watching over the interests of her banking institutions, prohibiting all except those to which she herself may give birth; to those she gives a charter as a special mark of her affection, prescribing the amount of the capital, the extent of their issue, the sums of gold to be kept in reserve; and to ensure obedience to her orders, she requires ample returns, and sends her officers at stated periods to examine the amount of their treasure. What a beautiful theory. Had it never been tried, how loudly would it be applauded. Let us look at another theory. Suppose it were now proposed for the first time to pass a law permitting any one individual to set up a bank and issue as many notes

* The writers on American banking may be divided into three classes. The first class are opposed to banks of all kinds. The second approve of the present system of chartered banks, but think it requires reform. The third are advocates for a free system of banking. The latter doctrine is ably supported in a work published in Boston upon 'Banks, Banking, and the Paper Currency,' by R. Hildreth. He attributes all the evils that have befallen American banking to the system of charters, and contends "that the right to establish a bank ought to be a common right, open to all who will comply with such regulations for the public security as may be established by a general law." We have not met with any American writer who has advocated the establishment of a sole bank of issue throughout the Union, or even a sole bank of issue in any individual state.

as he pleased, would not the plan be condemned as absurd? Should we not be told that banks would become as numerous as gin-shops, and that every pauper and swindler in the community would be issuing "promises to pay," which would never be performed? Yet this is the case in London at the present time. Any individual, or any number of individuals, not exceeding six, may take out a licence, and issue as many notes as they please, even in London. Yet where are the practical evils of this state of the law? Some people assert that no evils have arisen because the number of partners is limited to six; but if this privilege were extended to partnerships of more than six persons, then dreadful indeed would be the evils that would come upon the community. When people cease to reason, and begin to prophecy, they must be left to themselves. We may rebut an argument, but we cannot refute a prediction.

IV. We like the plan of Mr. Tooke better than either Mr. Palmer's, Colonel Torrens', or Mr. Loyd's.

The practical working would appear to be this:—If the bank had 10,000,000*l.* of gold, and the foreign exchanges brought in 5,000,000*l.*, the bank would sell securities to the extent of 5,000,000*l.*; thus the notes issued against the gold would be brought back by the sale of securities. But if a further amount of gold should be brought to the bank after it had accumulated 15,000,000*l.*, then the bank would not sell securities, and the currency would be increased to the extent of this further amount. On the other hand, suppose the bank had 15,000,000*l.*, and a drain for gold commenced, the bank would pay out gold without reducing her securities or her circulation until her stock of gold should be reduced to 10,000,000*l.* But if the drain should still continue after the stock of gold had been reduced to this amount, the bank would then take steps for reducing the circulation. Thus, during the period that the stock of gold in the Bank of England is between ten and fifteen millions, the currency will be unaffected by the fluctuations in the foreign exchanges. The bank will not inflate the currency until the gold has reached 15,000,000*l.*, and she will not contract the currency

until the gold is reduced to 10,000,000*l.* While the gold remains between these two points, the circulation would remain tranquil, and the Bank of England would do nothing either to stimulate speculation or promote distress. Mr. Tooke is entitled to the praise of having directed the attention of the committee to the course to be pursued when the exchanges are favourable, while the other witnesses dwelt only on the course to be pursued when the exchanges are unfavourable. Mr. Tooke has also the merit of judging of measures by their practical effects, and not by reference to any ideal standard of perfection pompously dignified by the name of "sound principle."

V. Mr. Gilbart's 'Inquiry into the causes of the Pressure on the Money Market during the year 1839,' consists of an argument against the doctrine of regulating the currency by the foreign exchanges. While Mr. Tooke would exclude the foreign exchanges from exercising any influence on the currency when the stock of gold in the Bank of England ranges from 10,000,000*l.* to 15,000,000*l.*, Mr. Gilbart would exclude them altogether.

"We must not suppose that all the writers who contend that the currency ought to be governed by the foreign exchanges entertain precisely the same opinions as to the rules by which this principle ought to be applied, or the means by which it should be brought into operation. They all, however, agree in this—that when the foreign exchanges are favourable, the circulation of notes ought on that account to be increased; and when the exchanges are unfavourable, the circulation ought, on that account, to be diminished. We question the soundness of both these propositions.

"We are ready to admit, that if an improvement in the state of trade should be contemporaneous with a favourable state of the exchanges, the currency will be increased to meet the increased demand. And, in this case, notes will be drawn out of the bank, either by operations on the current accounts, or by discounts. But we contend that when no such demand exists, the Bank of England ought not to increase her issues of notes merely because she has more gold or silver in her vaults. At present, when a favourable course of exchange causes bullion to be imported, it is sold to the Bank of England in exchange for her notes. These notes are thrown into circulation, whether required by the wants of the community or not, and tend immediately to increase prices, lower interest, excite speculation, and promote investments in foreign secu-

rities. There is no Act of Parliament requiring the bank thus to purchase bullion. It is her own voluntary act, and she is, therefore, chargeable with all the evils it produces.

"Again, we ask whether this plan of issuing notes upon deposits or purchases of bullion does not produce the same effects as though the bank should issue her notes upon lodgments of cotton, or silk, or tea, or any other commodity. We should censure, and justly too, the conduct of a country banker, who had commenced corn-merchant, and inundated his district with notes issued in the purchase of corn; but would his conduct be at all more censurable than that of the Bank of England, who inundates the country with notes issued in the purchase of gold or silver bullion? It may be said that, when the country banker's notes are presented for payment, he could not honour them until he had first sold his corn, while the Bank of England, having not corn, but gold, could pay off her notes when presented. Supposing this to be correct, this would not counteract the evils produced by the excessive issue. The notes would not be presented for payment to the Bank of England until the foreign exchanges had become unfavourable. But the mischief would then have been done, and the prompt payment of the notes would not counteract the evils produced by the high prices and speculations that followed the excessive issues; and let it be observed, that when the exchanges have thus been rendered unfavourable, it is by no means certain that the amount of notes for which gold would be demanded of the Bank of England would be limited to the amount of the portion that was in excess. It has been generally found that an unfavourable exchange resembles the operation of the syphon. When the currency is raised to a height that shall turn the exchanges, the gold continues to flow outward until nearly the whole stock is exhausted.

"But an objector may say, it is admitted that the bank ought not to increase the circulation on account of a favourable course of exchange, but can she avoid contracting the circulation when the exchanges are unfavourable? Must she let all her gold be exported without making an effort to stop it? To this we reply, first, that were the Bank of England not to expand her circulation when the exchanges are favourable, the exchanges would seldom be unfavourable. The late Mr. Rothschild stated to the parliamentary committee of 1832, that the exchanges were so uniformily in favour of England, in consequence of our manufactures, that it was necessary we should occasionally import corn, and engage in foreign loans, in order to get rid of our superfluous treasure. 'England is the place of settlement for the whole world; what is wanting in India, in the Brazils, &c., gets settled here; and suppose you import iron from Sweden—if you receive 1,000*l.* worth of iron, and manufacture it, you will then get 10,000*l.* for it, and then, when it is manufactured, it is sent to all the world. Suppose you get cotton from America; the cotton costs there 3*d.* or 6*d.* per pound, but

when it is manufactured, that pound of cotton is worth four times as much. In the regular course of things, the exchanges with every country must be in favour of this.' Secondly, we reply, that were the currency kept in a sound state, an unfavourable course of exchange—as, for instance, in the case of a bad harvest—would not be likely to take away more gold than what the bank could conveniently spare, without deranging the currency. We again quote Mr. Rothschild—'Suppose we have a bad harvest in this country, and we import very largely corn: this will have an effect immediately for a short time, but in general the exchange is always in our favour.' Thirdly, we reply, that in those cases where the exchanges are so unfavourable as to warrant the interference of the Bank of England, the bank could make such arrangements as would enable her to meet the demand for gold without contracting the circulation. In the year 1839, the contraction of the currency failed to arrest the exportation of gold, and that object was ultimately effected by the arrangement to draw bills upon Paris. Why could not such an arrangement be permanent, and why could it not be acted upon in the first instance, instead of being postponed to the eleventh hour? Other means might also be employed to stop an unfavourable course of exchange for a short time, until it was rectified by the natural course of trade. A few years ago, the exchanges between Ireland and England fluctuated more than they do now between England and France; but in 1825, the Bank of Ireland determined to give bills on London at twenty-one days' date for cash, and hence this exchange became the maximum of the fluctuation. Why may not the Bank of England adopt a similar practice with reference to the continental cities?—we do not say permanently, but to meet those temporary cases to which we have referred. 'The Bank of England,' says Mr. Rothschild, with reference to regulating the exchanges, 'has great power, if they do not care to sacrifice money.' And why should they not sacrifice money—why should not a portion of the expense of rectifying the exchanges be borne by those who must supply the gold? At present, the plan is for the bank to reduce her circulation, and hence to lower prices; our manufacturers have then to sell their goods at reduced prices, and thus the cost of rectifying the exchanges falls upon the productive industry of the country, while, during the process, the profits of the Bank of England are actually augmented in consequence of carrying on her business with a less amount of treasure."

We have never seen any foundation for the censure cast upon the Bank of England for her recent engagements with the Bank of France. If it lessened the confidence of foreigners, that was merely because the measure was unusual, and therefore regarded as symptomatic of distress. Were it a permanent regulation, it would excite no alarm, and might

be so employed as to be highly beneficial. These credits, however, might be interrupted by war; and, perhaps, it would be desirable that the bank should at all times hold a certain amount of foreign securities. The beneficial effects of this may be illustrated by a reference to the Bank of Ireland. That bank holds in all seasons several millions of public securities, which are of course saleable in London, and the proceeds may be remitted in gold. If the Bank of Ireland held securities saleable only in Dublin, she would be in precisely the same state as the Bank of England; she would then meet a drain for gold only by contracting her circulation; whereas now, a drain for gold, either foreign or domestic, could be met by a sale of securities, and the circulation would not be disturbed. Now what prevents the Bank of England holding securities saleable in France, and thus obtaining gold from France when necessary, with as much facility as the Bank of Ireland can obtain gold from England? The efficiency of such a measure is explicitly stated by Mr. Norman.

"1941. Has it ever been suggested that it might be expedient that the bank should hold an amount of foreign securities?—There has been a good deal of consideration upon that subject in the bank; the question has never been formally discussed; my own opinion is in favour of it, but there is much practical difficulty in it.

"1942. If the practical difficulty were got over, would it not afford them permanently a resource to which they might have recourse, as under the late extraordinary circumstances of foreign credit?—Yes; the effect of our holding foreign securities would be the same as giving us a portion of gold which paid interest.

"1943. It would be equivalent to a large amount of bullion, with the advantage of deriving some interest from it?—Yes.

"1944. Would it be available, in case of a drain, for stopping the export of gold to the extent of the securities held?—Yes.

"1945. Would it operate immediately and effectually?—Yes.

"1946. What are the practical objections to which you have alluded?—The important practical objections I conceive to be, the selection of a proper description of securities; securities of undoubted character; securities, upon the realization of which, under all circumstances, one might depend, and securities which could be realized in places on which we should have occasion to draw, or where many bills on England might be negotiated.

"1947. Do you then think it, upon the whole, an expedient on which the bank might safely rely?—If the practical difficulties could be overcome, I think it an expedient upon which the bank might safely rely, to a certain extent."

It appears to us that these practical difficulties may be easily overcome.

Mr. Loyd states that the plan is unobjectionable "upon principle;" but Mr. Loyd is unfortunate in the choice of his principles; for, according to his own account, they all seemed clogged with some difficulty which prevents their being carried into practical operation.

"2847. How far do you think that it would be a wise course for the bank to pursue, that with a view to its stopping a drain of gold, whenever a drain should arise, it should depend on foreign securities, which it might buy when exchanges were favourable, and sell when they were adverse?—I do not know that I am a very competent judge upon that point, but I confess that the leaning of my mind is rather adverse to that plan.

"2848. Will you state why?—The plan is certainly unobjectionable upon principle. It would be a measure tantamount to holding the same quantity of gold, paying interest; it would be a commodity which the Bank of England would have the means of exporting for sale, and against the proceeds of which it might draw, whenever the state of the trade of the country led to an excess of imports, and a deficiency of exports; but, on the other hand, if the bank adopts that plan, she will necessarily become a very powerful actor, at her own discretion, upon the exchanges; and the knowledge that so powerful an actor is hanging over the exchanges, I think may be calculated to disturb the ordinary action of the exchange dealers, and to prevent their taking that course which, under ordinary circumstances, they would take; and I think it a matter worthy at least of serious consideration, whether greater evil might not arise in that way than the good which would be obtained by the holding of securities on the part of the bank. In addition to that, it seems to me to be in violation of the great principle of the rule of 1832, which was that of leaving the bank to be acted upon, and not acting itself; I think that, as far as it can be carried out, a very useful principle, with reference to the bank; and this plan of holding foreign securities seems to me to be of directly an opposite character."

If the danger of interfering with exchange dealers be a valid objection to holding foreign securities, is not the danger of interfering with stockbrokers and holders of Government stock an equally valid reason why the bank should not hold

English securities? The last objection mentioned by Mr. Loyd is, we think, the strongest argument in its favour. It is an admission that were the bank to hold foreign securities, an adverse state of the exchanges might be rectified without a contraction of the currency.

It is a frequent remark, that the bank has to find gold not only for her own notes, but also for the notes of all other banks. This language is ambiguous. It is not intended to mean, that should the Bank of England pay off all her own notes, she would afterwards have to find gold to pay off the notes of all the other banks; it means only, that all the other banks, by holding government securities saleable in London, are able to sell those securities for Bank of England notes, and by demanding payment of these notes, to get possession of her gold. If the Bank of England held securities saleable in France, the Bank of France might, with equal propriety, complain that she was obliged to find gold, not only for her own notes, but also for those of the Bank of England; and the Bank of England would have all the advantages which are now supposed to belong to our country banks.

VI. The 'Defence of Joint-stock Banks and Country Issues' is a very able work. It is divided into two parts; the first of which originally appeared as a postscript to a work published by the author, Mr. Bailey, in 1837, under the title of 'Money and its Vicissitudes in Value;' the second part refers to facts and opinions of a more recent date, and includes a triumphant reply to the accusations brought by Mr. Loyd against the country banks. We are glad to observe, that while the author defends the joint-stock banks, he makes no attack upon the private bankers.*

* We have, on many occasions, expressed our regret that any hostile feelings should exist between different banks. At present, we believe, the private bankers and the joint-stock bankers throughout the *country* are on good terms. But the *London* bankers still exclude the joint-stock banks from the clearing-house. It might have been expected that the Directors of the Bank of England would have been above the petty feelings of commercial rivalry; but the case has been otherwise. They have prevented the joint-stock banks in London from obtaining the privilege of suing and being sued by their public officer, or of accepting bills drawn at less than six months after date. They reject at all their establishments any bills drawn or indorsed by a private or joint-stock bank

With regard to the currency, it does not seem necessary to make any defence of the joint-stock banks apart from the private bankers. Nor does Mr. Loyd, or the writer before us, make any distinction between them, but both are referred to under the title of 'The Country Issuers.'* Indeed, since the beginning of the year 1837, the proportion of the country circulation possessed by these two classes of banks has remained nearly the same. This proves that the charge of reckless issue brought against the joint-stock banks cannot be founded in fact, or, if founded in fact, that a reckless issue of notes cannot permanently increase the circulation, even of those banks by whom it is practised; those who

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of issue, and at their branches they refuse to take any of their notes, unless the banks have opened an account, and lodged money to meet any notes *that may possibly be offered* to the branch. Recently they have given permission to two London joint-stock banks to lodge money in their hands and draw it out again; but they have refused to grant to these banks the same privileges they grant to private bankers and to private individuals who have similar accounts. As one proof that the joint-stock banks were not adequately represented in the Parliamentary Committee, we may observe, that no question upon these points was put to either Mr. Palmer or Mr. Norman, nor were those gentlemen examined as to the charges they had brought against the joint-stock banks in their respective pamphlets.

* The advocates of one bank of issue seem to think that they strengthen their cause prodigiously by contending that the issuing of notes is no part of the business of banking. Hence they use the phrase "country issuers," not country banks. Arguments, founded on verbal distinctions, are seldom worthy of a serious refutation. Bankers, and none but bankers, have issued notes in this country for the last one hundred and fifty years. It seems, therefore, very natural to suppose that the issuing of notes is a part of their business. But were it otherwise, how would that prove the propriety of establishing a sole bank of issue. The argument stands thus—the Legislature ought to establish one bank of issue, *because* the issuing of notes is no part of the business of a bank. How very profound! We are also told that the issuing of notes is a prerogative of the Crown. Well, suppose it be, what then? How does that show that the establishment of a sole bank of issue would be conducive to the advantage of the nation; or what practical measures is this doctrine intended to justify? Are all our banks of issue to be suppressed by Royal proclamation; and are we to have paper money issued by the Crown independent of Parliament? Might not such a measure produce a collision between the Crown and the Parliament, seeing that all the notes now in circulation are issued under the authority of Acts of Parliament, to which the Crown, as one branch of the Legislature, must have assented? King Charles I. claimed the exclusive right, not only of coining money, but also of money-changing, and established Royal exchangers by proclamation, prohibiting all others. Is the exclusive privilege of money-changing still "a flower of the Crown?" and are we liable to a proclamation from Queen Victoria, shutting up all our banks, on the ground that, as "money-changers," they invade the Royal prerogative? We merely ask questions, for we are free to confess that these knotty points of constitutional law are beyond the range of our studies. We hope there will be no civil war.

advance this charge must, therefore, be wrong, either in fact or in principle. We believe them to be wrong in both.

The means Mr. Bailey suggests for the improvement of the currency is the establishment of free trade, or, as he would call it, free action in banking, not merely in the country, but also in London.

"The management of the Bank of England, as exhibited in the accounts and statements of the directors, and its whole history for the last fifty years, furnishes a remarkable illustration of the difficulties which follow a departure from the principle of leaving trade to the free operation of competition.

"Had no monopoly been granted to a single bank, a number of such establishments would doubtless have arisen in London, abounding in capital, with managers of ability sharpened by the competition of rivals, and adapted to all the emergencies which could call for its exercise. No redundant circulation would have ever made its appearance, or if it had, the instant repression which it was destined to encounter would have saved the community from the repetition of the mistake. No suspension of cash payment would have been dreamed of by government, because the healthy state of the banks would never have required it. We should have seen, at the present time, sound establishments in the metropolis, furnishing all needful assistance to the commercial community, acting as the receivers of unemployed capital, and the distributors of the property so intrusted to them amongst those who wanted it, and issuing for public convenience a paper currency, subject to the check of instant convertibility into gold, enforced with unremitting constancy by the watchful competition of rivals. Instead of all this we see one huge establishment with an exclusive privilege of issuing promissory notes in a district extending sixty-five miles round the metropolis; and using that privilege (according, at least, to almost all the writers who have touched on the subject) in the most inconsistent and mischievous manner; expanding the currency when it ought to be contracted, and contracting it when it ought to be expanded; professing to act on rules which are habitually infringed; publishing unsatisfactory accounts from which no certain conclusions can be drawn; mixing together in hurtful confusion the duties of a manager of the currency under a monopoly with the functions of an ordinary banker; and, what is not to be wondered at, hesitating in the midst of these complicated movements as to the soundness of the principle on which the most important part of the business is conducted.

"It is almost an inevitable conclusion, that the longer the monopoly is persisted in, the more complicated will be the difficulties into which commercial affairs will be liable to fall. Every year seems to urge us to

pass from a system of artificial restraints to the simple and easy movements of unfettered trade.

"The great desideratum is to have a currency convertible into gold, and capable of adapting itself, by those insensible contractions and expansions which no human sagacity can ever effect, to the perpetually varying wants of the community. Break up the monopoly, open the trade of banking in all its departments to free competition, let it be unshackled by restrictions, and the object, as far as attainable by human regulations, would be at once accomplished. We should soon see a sufficient number of wealthy banking companies established, capable of doing all that the Bank of England now does, and deprived of the power of inflicting those evils which have been laid to her charge.

"That they would be equally capable with her of receiving deposits and discounting bills, or making advances on other securities, seems plain. Ten or twenty establishments, with capitals of two or three millions each, or less, would have it in their power to grant every accommodation to commerce that could possibly be required. That they would not, as banks of issue, have the same power of arbitrarily expanding and contracting the circulation of the whole empire seems also manifest. They would, in this respect, be as passive as the country banks now are. Instead of their promissory notes being subject to no check but the irregular and desultory demand for gold by individuals, each bank would be exposed to that organized system of checks, which is necessarily constituted by the existence of other similar banks of issue, and the operation of which would be daily felt. This systematic action, so constant and instantaneous, would proportion with exact precision the amount of the paper currency to the state of commerce, or, at least, with a precision more exact than could result from the most vigilant attention of any board which attempted to accomplish the same object by watching the signs of the times. We might surely trust to the spontaneous operation of private interests for the supply of the metropolis with the requisite quantity of currency with as much confidence as we trust to it for the supply of the same vast community with food."

Whatever effects might have been produced from the establishment of several banks of issue in London a century ago, we do not think that their introduction at the present time would, for a considerable period, seriously affect the circulation of the Bank of England. So long as the Bank of England shall be the Government bank, and have, besides, a large deposit and discount business—remain the centre of a dozen branches, some of which are the largest banks in the country—and issue thirty millions a-year in the payment of the public dividends, she must continue in possession of

nearly the whole circulation of London. The great advantage of a few more banks of issue in London would be the check they would exercise upon the management of the Bank of England. She would not issue notes against gold bullion if she had to pay those notes in gold coin in her exchanges with the other banks on the following day. She would not act illiberally or capriciously towards her customers if there were other equally strong banks to whom they might resort. She would not stand aloof in seasons of public calamity, and declare it would be a departure from sound principle to afford any relief if she saw other powerful banks ready to perform the duty which she declined. Several other advantages would result from numerous banks. If the circulation now exclusively possessed by one bank was divided between several banks, it is probable that they would altogether be in possession of a much greater amount of gold, and they would be better able to meet an adverse exchange. Their united capital, too, would probably be greater than that of the Bank of England; hence there would be greater security to the public, independently of the liability of all the partners. This capital would not be locked up in loans to Government, but employed in granting facilities to the trade and commerce of the country. The Government, too, would get the public business transacted on better terms, as the rivalry between the banks would induce them to outbid each other; while, at the same time, such abuses as have resulted from the connection between the Government and the bank would be altogether avoided. Mr. Bell observes:—

"With no hostile feeling toward the Bank of England, but, on the contrary, with every wish to see it a powerful and successful establishment, I would earnestly recommend that it should lose no time in relinquishing its exclusive privileges, which, besides throwing upon it the now unprofitable burden of managing the financial affairs of the government, necessarily entail on it heavy losses, and even a struggle for its very solvency on the recurrence of any monetary pressure. At least these privileges have been admitted at the last general meeting not to be profitable, while they unquestionably retard and obstruct improvement in the system of banking in England. Were these privileges relinquished, the bank would be speedily surrounded by a powerful confederacy of joint-stock banks, of which the great private banks of London would

form the germ, which would be willing and able to afford the commerce of the country every accommodation, and to sustain it under every emergency, whether arising from adverse foreign exchanges, or from any great absorption of national capital. Like the Bank of Scotland and Royal Bank of Scotland, having a community of interest with all the banks in the country, the Bank of England would become the centre and regulator of the whole banking interest in England, while the competition for circulation under a stringent system of exchanges, and for deposits, by allowing a liberal rate of interest, would lead, as it has led in Scotland, to the concentration of national capital in their hands, and afford a protection against those fast-recurring seasons of monetary distress which have of late proved so disastrous as to shake public confidence in the stability of every great interest of the country. But if, on the contrary, the legislature shall persist in directing its exclusive attention to theoretical notions respecting the currency, and fails to establish a sound system of banking in the country, I feel convinced that these fast-recurring seasons of monetary pressure will sooner or later rouse the country, and the government will find it no longer practicable to sacrifice the welfare of the empire in order to facilitate the financial arrangements of the Chancellor of the Exchequer."

In commenting upon the views of other writers, we have in a great measure disclosed our own. The subject involves a question of science and a question of legislation. With regard to the scientific part of the inquiry, we disapprove of the system of either Mr. Palmer, Colonel Torrens, or Mr. Loyd, and we give only a qualified approbation to that of Mr. Tooke. It is our opinion that the bank should not expand her circulation merely because the exchanges are favourable, and that she should be prepared to meet an unfavourable exchange by foreign credits, or by holding foreign securities. But we do not think that this or any other system ought to be enforced on the Bank of England by legislative enactments, nor are we desirous of any organic change in that establishment. We would let the bank directors govern their issues by any principle they chose; but we would provide an effective check upon any mismanagement, by permitting the establishment of other banks of issue in London. To guard against the possibility of abuse, it might be enacted, in the first instance, that no bank should issue notes in London, unless it had a paid-up capital of one million sterling; and if it issued notes in the country as well as in London, its paid-up

capital should be two millions. And the distance of sixty-five miles, from which banks of issue of more than six partners are now excluded, might be reduced to fifteen miles, measuring all round from the Bank of England. A thorough alteration of the law of partnership should also take place with regard to all banking companies.

Beyond the attention which has been drawn to the subject, we have not been able to discover that a single advantage has yet been gained by the evidence taken before the committee. The accusations and the defence of the Bank of England had been long ago before the public in the City Articles of the morning papers. The various theories as to the administration of the currency remain in the same state, and the causes of the recent pressures will now be as much a matter of debate as before the committee was appointed. No ground has been furnished for any new Act of the legislature. The bank directors have at present the power of acting upon the systems of Mr. Palmer, Colonel Torrens, or Mr. Tooke, just as they please. To establish one bank of issue would require an Act of Parliament; but no government would support a measure so destructive to the prosperity of the nation. To establish free trade in banking in London would require the sanction of the legislature; but it may be questioned whether the nation has yet undergone a sufficient quantity of suffering to induce our statesmen to adopt so simple a remedy. To this, however, they will come at last. "Wisdom," says Mr. Loyd, "is best learned in the school of adversity." When a few more theories have been tried—a few more "pressures" have been experienced—a few millions more of opulent families have been reduced to beggary, and our Union workhouses are thronged with starving artisans—then we may discover that all our attempts to regulate the currency have been productive of mischief, and we shall be willing to let the currency regulate itself.

PAPERS

READ BEFORE THE STATISTICAL SECTION OF THE BRITISH ASSOCIATION,

At Belfast, 2nd and 3rd September, 1852.
At Liverpool, 22nd September, 1854.
At Glasgow, 15th September, 1855.

ON THE LAWS OF THE CURRENCY IN IRELAND,

As exemplified in the Changes that have taken place in the Amount of Bank Notes in Circulation in Ireland since the passing of the Act of 1845.

No. I.

[Read before the Statistical Section of the British Association at Belfast, 2nd September, 1852.]

I cannot better explain what I mean by the Laws of the Currency in Ireland than by making two extracts from an article on the Laws of the Currency, published in the 'Foreign and Colonial Review,' of April, 1844. This article was written by myself, and contains a summary of my own evidence on the subject before the Committee on Banks of Issue, in the year 1841:—

"We will take the monthly returns of the circulation for the period that is past; that is, from September, 1833, to the end of 1843, and endeavour, by observing their various revolutions, to discover if they are governed by any fixed causes or principles—to ascertain if those principles are uniform in their operation; and if we should discover that the revolutions of the currency are regulated by any uniform principles, we shall call those principles the laws of the currency.

"From what we have already said of the laws of the currency, those of our readers who are acquainted with Ireland will be able to judge beforehand of the revolutions of her circulation. Being purely an agricultural country, the lowest points will of course be in August or September, immediately before the harvest and the commencement of the cattle and bacon trade. Then it rises rapidly till it reaches its highest point in January, and then gradually declines. As an agricultural country, we should naturally expect that during the season of increase the circulation would expand most in the rural districts; and so we find that the circulation of the Bank of Ireland, in Dublin, ex-

pands very moderately—that of her branches which are located chiefly in large towns expands more—while the circulation of the joint-stock banks which are located in the agricultural districts receives the largest increase. Again, the purchases and sales of agricultural produce are known to be in small amounts; and hence the notes of the smallest denomination receive the largest relative increase. The annual changes of the Irish circulation are governed chiefly by the produce of the harvest and the prices of agricultural products. These are the laws of the circulation of Ireland."

In the present paper I shall consider the laws of the circulation only so far as they are exemplified in the changes that have taken place in the annual amounts of the notes in circulation in Ireland since the year 1845.

In that year an Act was passed for the regulation of bank notes in Ireland. The average amount of notes that had been in circulation during the year ending May 1, 1845 (6,354,494*l.*), was made the fixed or authorized issue. For any amount beyond its authorized issue, each bank was required to hold an equal sum in gold or silver coin, the silver not to exceed one-fourth of the whole. The Act came into operation on the 6th December, 1845, and from that period each bank has made returns to the government, stating the average amount of notes in circulation during the preceding four weeks, distinguishing the notes under 5*l.* from those of 5*l.* and upwards, and giving the amount of gold and silver coin it held in its vaults. These returns are made by all the banks of circulation in Ireland. These are, the Bank of Ireland, the Provincial Bank of Ireland, the National Bank of Ireland, the National Bank of Clonmel, the National Bank of Carrick-on-Suir, and the three banks in Belfast, viz., the Northern Bank, the Belfast Banking Company, and the Ulster Banking Company.

We possess these returns for every four weeks, from January, 1846, to the present time. By adding together all the returns made during each year, and then dividing by thirteen, we obtain of course the average amounts in circulation from 1846 to the year 1851, inclusive. I have also added the proportion per cent. which these averages bear to the certified circulation of 6,354,494*l.*

The following are the average amounts in circulation :—

Years.	Average Circulation.	Proportion to Certified Circulation.
	£	
1846	7,259,948	114·25
1847	6,008,833	94·55
1848	4,828,992	76·00
1849	4,310,283	67·83
1850	4,512,444	71·00
1851	4,462,909	70·25

From this table it appears that, if the authorized issue be represented by the number 100, the actual circulation for the six years 1846 to 1851, inclusive, will be represented by the numbers, 114, 94, 76, 67, 71, 70.

The question naturally occurs to us,—What is the cause of this great falling-off in the annual circulation since the passing of the Act of 1845?

We may premise that this reduction could not be produced by the operation of the Act itself. The Act does not restrict the amount of notes in circulation; it merely requires, that for all notes issued above a fixed amount, the banks shall hold in their vaults an equal amount of gold. Nor has this reduction been the voluntary act of the bankers. Their profits would have been greater if the circulation had been greater, but they had not the power to keep it up to the authorized amount; and, fortunately for them, the Act did not require them to do so. Nor does the amount of notes in circulation correspond with the amount of gold in the Bank of England; for the gold in the Bank of England is, at the present time, much higher than it was on the 1st May, 1845, although the Irish notes in circulation are much less. We have here, then, three negative laws of the currency in Ireland—namely, that the amount of notes in circulation in Ireland is not regulated by the Act of Parliament, nor by the wishes of the Irish bankers, nor by the stock of gold in the Bank of England.

As notes are issued in Ireland chiefly for the purpose of purchasing agricultural produce, it would seem to follow that

the amount of notes put into circulation, will be regulated mainly by the quantity of that produce, and by the price at which it is purchased. If, then, we find that, in the years since 1845, the quantity of agricultural produce has been less, or the price at which it has been sold has been less, and especially if both these circumstances should have occurred, then have we an adequate cause for a reduction in the amount of bank notes in circulation.

1. The annual productiveness of the harvest would affect the amount of notes in circulation.

We have already noticed the annual averages of the circulation, taking the year according to the calendar, from January to December. We will now take the annual averages, commencing each year from the end of August, which is more properly the agricultural year. By this arrangement we shall be better able to compare the character of the harvest in each year with the amount of notes in circulation. The following are the annual averages, ending with the month of August, and the proportion to the certified circulation:—

Years.	Average Circulation.	Proportion to Certified Circulation.
	£	
1846	7,192,133	113·18
1847	6,644,994	104·57
1848	5,023,442	79·00
1849	4,433,732	69·77
1850	4,396,820	69·19
1851	4,537,304	71·41
1852	4,528,762	71·26

From the description of the harvests given in the annual reports of the Provincial Bank of Ireland, we learn that the years 1846 and 1848 were disastrous in regard to the produce of the harvest; and we consequently find, as we should naturally expect, a falling-off in the following years in the circulation of bank notes; but the harvest of 1847 is described as "on the whole a productive one," that of 1849 is "on the whole above an average." In 1850, though the crop of wheat was inferior, "the oat and barley crops were good both in

quality and quantity." Yet these productive years did not produce any corresponding advance in the circulation of bank notes. We infer, therefore, that there are other laws or circumstances by which the circulation is governed besides the productiveness of the harvest on the land actually under cultivation.

2. This will lead us to observe, that a bad harvest in one year may, by the distress it produces, cause a less production of commodities in several following years, and hence there may be a less demand for bank notes.

A bad harvest produces distress among the farmers; and this distress affects the amount of circulation in two ways:—First, The farmer consumes his own produce instead of selling it, and thus does not require the use of notes. If his potatoes are destroyed, he will consume his grain. In the Provincial Bank Report of 1846, it is stated that, although the crop of oats was productive and good, a larger portion than usual of the year's crop was believed to be retained for consumption in Ireland, in consequence of the apprehended deficiency in the supply of potatoes. Secondly, The distress of the farmer diminishes the instruments of reproduction. If he has no potatoes, he can rear no pigs. An abundant crop of potatoes produces in the following year an abundant crop of pigs, but a famine of potatoes will be followed by a famine of pigs; and hence, the distress of one year may have the effect upon the circulation of notes in several succeeding years. This circumstance is referred to in the Provincial Bank Report of 1850—"The extensive cultivation of the potato may be considered liable to objection, but it must be remembered that this is the foundation of one branch of the provision trade, which was in former years of great importance to Ireland; and as the stock of pigs, which was so greatly reduced after the failure of the potato crop of 1846, has been again considerably increased during the last two years, it may be hoped that, if there be a good potato crop this year, that important branch of Irish trade may be again established on its former basis."

After the failure of the potato crop in 1846, the exporta-

tion of swine was reduced from 480,827 in 1846, to 106,407 in 1847. The potato crop again failed in 1848. The number of swine exported in 1848 was 110,787; in 1849 it was only 68,053.

The destruction of the pigs which took place in 1846 would doubtless affect the circulation of notes in subsequent years, especially in 1847, 1848, and 1849, and probably, also, to a certain extent, in the years 1850 and 1851.

But pigs can be reproduced more rapidly than cattle, as they are more fruitful, and sooner reach maturity. The seasons of famine caused the exportation of cattle in order to obtain food; and thus the means of reproduction in future years were destroyed to a more serious extent. In passing through Connemara a few days ago, a fellow-traveller informed me that the mountains we then saw naked had, previous to the famine, been covered with sheep and cattle.

The extent of the distress, and consequent destruction of the instruments of reproduction, was shown in the rapid increase of the poor rates; and it may be remarked, that the greatest number of persons relieved was in the year 1849—the year that the notes in circulation were at their lowest point of depression.

3. We may also observe, that a reduction in the quantity of commodities produced may be caused by a reduction in the number of producers, and this would occasion a less demand for bank notes.

It appears from the census of 1841 and 1851, that, between these two periods, the population has declined 1,659,330, or at the rate of 20 per cent.; and calculations have been made to show that the whole of this decrease had taken place since the year of the famine, 1846. Such a decrease, from whatever cause, must be attended with a decrease in the commodities produced and consumed by those individuals, and will consequently have occasioned a less demand for bank notes to pay for those commodities. If the lands previously occupied by this departed population remain uncultivated, there is a direct decrease in the agricultural produce. Such

might be the effect where the occupants died. Emigration might produce an additional effect. The emigrants, before their departure, would change all their bank notes into gold to take with them, and thus would occasion a further reduction of the circulation.

It may be presumed, therefore, that, up to the present time, there has been a large decrease in the produce of the country, and, consequently, in the circulation of bank notes, from the decrease in the number of its inhabitants. This decrease would probably take place chiefly by deaths in the years 1846 and 1847, and in subsequent years chiefly by emigration. A great stimulus was given to emigration in the year 1845, which has continued to the present time. We may observe, that the year of the greatest emigration, 1849, was the year of the greatest distress, and of the greatest diminution of bank notes in circulation.

This decrease of the population occurred chiefly among those who had but small holdings in land. Their removal, therefore, would affect the circulation in two ways, even supposing the land were subsequently cultivated. Those small cultivators are compelled to bring their produce to market immediately after the harvest, and hence the circulation rises in September and October. From these small holdings, too, the produce is brought to market in small quantities—"each man brings his sack of oats, or two or three pigs to market;" and hence the circulation thus occasioned must consist chiefly of small notes.

4. We may further observe, then, the amount of notes that circulate in a country will also be affected by the quantity of commodities exported, and the quantity imported.

The season in which there is the greatest export of commodities is the season of the highest circulation. But importation withdraws the notes previously in circulation. Were a banker to advance 100*l.* to an exporter, the advance would be made in notes, which would be distributed among the farmers, and remain in circulation till the landlord called for his rent. Were a banker to advance 100*l.* to an importer, the advance must be made by a draft on England, and he

would be repaid by his own notes, withdrawn from circulation in payment for the articles imported. Imports not only do not draw out any of the banker's notes, but they, moreover, withdraw those which were previously in circulation. When a man imports, say 100*l.* worth of oats, he sells them to the dealers, and the dealers to the consumers. The consumers pay the dealer in notes, which are passed to the importer, who takes them to the bank, and gets for them a bill on London, with which he pays for the oats. The effect of diminished exports and increased imports is referred to in the Reports of the Provincial Bank of Ireland, every year, from 1847 to 1851; and Mr. Murray states, in his evidence before the Committee on Commercial Distress, that not only was the amount of notes reduced, but also that of silver.

"When a period of pressure takes place, the silver is forced out of their hands into the hands of the banks, and the account I have delivered to the committee exhibits that. On the 3rd of January, 1846, there was in the hands of all the banks in Ireland 267,000*l.* in silver; there is at this present moment 501,000*l.* in silver in the hands of all the banks; so that you have to add to the diminished issue of bank notes a diminished amount of silver, in the hands of the general community of Ireland, of nearly 250,000*l.*"

The public returns show that, after the year 1845, the exports from Ireland were largely reduced, especially in the years 1847 and 1849, and in those years, too, occurred the largest importations. These imports were paid for by the capital of the country, and in part by the money of the country.

5. Thus we find that the reduction in the amount of notes in circulation in Ireland has been preceded or accompanied by a reduction in the amount of commodities produced, occasioned by a reduced productiveness in the land actually cultivated, a destruction in the instruments of reproduction by the distress thus occasioned, a reduction in the number of producers by deaths and emigration, and the exportation of an increased portion of its capital in exchange for food. But there is another circumstance that concurs powerfully in producing the same effect—that is, the prices at which the commodities brought to market are sold.

The failure of the crops in Ireland led the late Sir Robert Peel to introduce "An Act to Amend the Laws relating to the Importation of Corn." It is 9 & 10 Vict., cap. 22, and was passed June 26, 1846. A large reduction was made in the duty immediately; and it was enacted that, after the first day of February, 1849, the duty on wheat, barley, oats, &c., should be only 1*s.* per quarter. And, in consequence of the increased distress in Ireland, another Act was passed, in January 1847 (9 Vict., cap. 1), to suspend, until the first day of the following September, all the duties on the importation of corn.

In consequence of these Acts, large importations took place, and the prices gradully declined.

I have no means of ascertaining the average prices of grain throughout Ireland, but I have obtained from a London corn-merchant the average prices of wheat, barley, and oats for each year from 1841 to 1851; and, taking in each case the prices of the year 1845 as represented by 100, I have calculated the variations per cent. in the subsequent years.

In the following table the first column represents the variations in the circulation for each year, ending December, as compared with the actual circulation ending December, 1845 (6,949,403*l.*). The table assumes, of course, that the changes in the prices of grain in Ireland have corresponded with those that have taken place in England.

A Comparative View of the Changes in the Prices of Wheat, Barley, and Oats, and the Circulation for each Year, ending December, from 1845 to 1851, as compared with the Circulation and the Prices of the Year 1845:—

Years.	Circulation.	Wheat.	Barley.	Oats.
1845	100·00	100·00	100·00	100·00
1846	104·46	107·90	103·40	105·20
1847	86·47	136·80	138·70	127·00
1848	69·49	99·51	99·47	91·11
1849	62·02	87·68	87·63	77·78
1850	64·93	79·47	73·95	72·96
1851	64·22	76·03	78·15	82·60

On comparing the years 1845 and 1851, we find that the

circulation has declined 35·78 per cent., the price of wheat has declined 24 per cent., of barley 21·85 per cent., and of oats 17·40 per cent. If we compare the year 1841 with 1851, the decline of the circulation will only be at a rate of 16·7 per cent., while the price of wheat shows a decline of 40 per cent., of barley, 25 per cent., and of oats, 17 per cent.

6. Having now taken a view of the circumstances that have regulated the circulation of bank notes in Ireland, we will endeavour to trace the influence they have had respectively upon the circulation of each year from 1845 to 1851. We shall compare each year, not with the certified circulation, ending May 1, 1845 (6,354,494*l.*), but with the actual circulation, ending December 1845 (6,949,403*l.*). We may premise that this standard of measurement is a high standard. The circulation of the four preceding years had been as follows:—

	£		£
1841 . . .	5,355,814	1843 . . .	5,168,585
1842 . . .	5,114,457	1844 . . .	5,936,913

The following is the circulation of the succeeding years:—

Years.	Circulation.	Increase on the Preceding Year.	Decrease on the Preceding Year.
	£	£	£
1845	6,949,403	..	..
1846	7,259,948	310,545	..
1847	6,008,833	..	1,251,065
1848	4,828,992	..	1,179,891
1849	4,310,283	..	518,709
1850	4,512,444	202,161	..
1851	4,462,909	..	49,535

1846. The increase in the circulation this year was owing, doubtless, to the abundant harvest of 1845. It has been observed that good and bad harvests often come in clusters. According to the Reports of the Provincial Bank of Ireland, the four years ending with 1841 were remarkable for bad harvests. But in the four succeeding years, from 1842 to 1845, the harvests were abundant; and in each case an increase had taken place in the circulation of notes in the following year, though not to any great amount in the year

1843, owing, possibly, to a fall in the price of wheat and oats.

The failure of the potato crop in 1846 does not appear to have had much effect in diminishing the amount of notes in circulation in that year. But we must recollect that the circulation was sustained by the large expenditure made by Government to relieve the distress.

1847. The decline of 1,251,065*l.* in this year was doubtless owing to the failure of the potatoes in the preceding year. This seems obvious, from the large falling off in the exportation of swine. It was further diminished by the large importations of food and the increase of emigration. The circulation would probably have fallen still lower had not an advance taken place in the price of all kinds of grain.

1848. Another large decrease, of 1,179,891*l.* in the circulation, as compared with the amount of the preceding year. In addition to the causes that continued to operate from the preceding year, this year was remarkable for a bad harvest and another failure in the potato crop. The poor-rates were more than doubled. Still the circulation would not have fallen so low had not a large reduction taken place in the prices of all kinds of agricultural produce.

1849. A further decline in the circulation (518,709*l.*). The lowest amount of notes in circulation since the passing of the Act of 1845 occurred in the four weeks ending September 8 in this year: it was 3,811,445*l.* The failure of the potato crop in the preceding year was shown this year in a further reduction in the export of swine. In this year, too, occurred a further reduction in the price of grain, a larger increase in the importation of food, a great increase in the number of persons relieved from the poor-rate, and a great stimulus appears to have been given to emigration.

1850. Although the prices of grain continued to decline, the circulation of notes this year shows an increase of 202,161*l.* upon that of the preceding. The export of swine was increased. The importation of food, though large, was less than in the preceding year, and a large reduction took place in the poor-rates.

1851. The circulation differs little from that of 1850, only by 49,535*l.*; and the year is marked by similar characteristics, with a still further decline in the poor-rates. The price of wheat was lower than the preceding, but that of oats had advanced.

1852. Taking the year ending August, the average amount of the circulation in 1852 is nearly the same as that of 1851. But there is a difference in the circulation of the different months. The circulation of 1851 was higher than that of 1852 in the months of January, February, March, and April, but less than 1852 in the months of May, June, July, and August. During the four weeks ending the 9th August, 1851, the circulation was 3,978,435*l.*; for the same period ending 7th August, 1852, it is 4,396,455*l.*

From the whole, we infer that the difference between the amount of bank notes circulating in a country at two distant periods cannot be regarded as any correct test of the condition of its inhabitants at those periods, unless we take into account all the circumstances by which that difference is attended—that the decline of the circulation of bank notes in Ireland, from the year 1845 to 1851, is no accurate measure of the distress that has existed in the country, or that now exists, as other causes besides distress have concurred in producing that effect—that in comparing the circulation of 1845 and 1851, we are making a comparison unfavourable to the country, as the year 1845 was a year remarkable for the high amount of its circulation—and that we should indulge in no gloomy inferences as to the condition of the country, even if the circulation should never recover its former amount.

I may, indeed, remark, that even the permanent reduction of the circulation to its present amount would be no conclusive evidence of the distressed condition of the country; for though distress first caused the decline of the circulation, yet, from the new circumstances which that distress introduced, the same amount of bank notes are not now necessary for conducting its operations. In confirmation of this opinion, I will quote from the article on the 'Laws of the Currency' an extract on the circulation of England:—

"During the last five years there has been a gradual reduction in the annual amount of the country circulation, as appears from the following table, which shows the average amount in each year, from 1839 to 1843, both inclusive:—

	£		£
1839 . .	11,715,527	1842 . .	8,249,052
1840 . .	10,457,057	1843 . .	7,667,916
1841 . .	9,671,643		

Thus it appears that, since the year 1839, the circulation of the Private and Joint-stock banks of England has declined to a greater extent than the circulation of Ireland since the year 1841. At present, the authorized circulation of the English banks is only 8,108,062*l.*, and the actual circulation, for the month ending on 12th of June last was only 6,355,397*l.*,* and it has been at a much lower amount. Among the causes assigned for this decline in the circulation of the English banks, are the establishment of the penny postage, the introduction of railways, the decline in the price of corn, and the extension of the practice of keeping banking accounts. These causes have also operated in Ireland, while there are other causes, such as the consolidation of small farms, and the cultivation of flax instead of corn, that will tend to produce the same effects. Even increasing prosperity will not always increase the amount of notes in circulation—sometimes the reverse. For as nations become wealthy, they learn to economise the currency. Large transactions are settled by cheques on bankers or bills of exchange, and notes are employed only in making payments of small amount. I cannot here enlarge on these topics. I can only recommend the study of the variations in the circulation of bank notes in Ireland, since the year 1845, as a subject fruitful in illustrations of most important principles, and suggestive of many practical lessons. Here men of business may obtain guidance, men of science may gather wisdom, and statesmen may receive instruction.

* The Official Returns for the circulation of bank notes in England, Scotland, and Ireland are regularly published every month in the 'Bankers' Magazine.'

A Table compiled chiefly from "Thom's Statistics of Ireland."

Years.	Average Circulation of the Year ending December.	Swine Exported from Ireland to Great Britain	Grain of all kinds Exported from Ireland to England.	Imports into Ireland.	Expenditure from the Poor-Rates.	Number of Persons Relieved from the Poor-Rates.	Number of Emigrants from the United Kingdom.	Number of Emigrants from Irish Ports.	Total Miles of Railway opened on the 1st of January.
	£		Qrs.	£	£				
1845	6,949,403	..	3,251,901	2,247,098*	316,025	114,205	93,501	23,705	65
1846	7,259,948	480,827	1,875,393	2,247,098*	435,001	243,933	129,851	38,813	65
1847	6,008,833	106,407	960,532	8,034,895	803,686	417,139	258,270	95,952	120
1848	4,828,992	110,787	2,082,841	4,293,978	1,835,634	610,463	248,089	59,701	209
1849	4,310,283	68,053	1,325,929	6,031,569	2,177,651	932,284	299,498	70,247	361
1850	4,512,444	109,170	1,298,421	5,208,349	1,430,108	805,702	280,849	51,083	475
1851	4,462,909	..	..	..	1,110,802	708,450	..	..	537

* Average of the three years 1844, 1845, and 1846.

No. II.

[Read before the Statistical Section of the British Association at Belfast, 3rd September, 1852. This Paper is a continuation of the Paper No. I. The Article was divided into two parts, and read before the Association on different days, merely because it was deemed too long for one reading.]

In my former paper I considered the changes that have taken place in the annual amount of notes that have circulated in Ireland since the passing of the Act of 1845. In the present paper I shall consider the monthly variations in the circulation; its division into notes of 5*l.* and upwards, and notes under 5*l.*; its distribution among the different banks, and the amount of gold and silver they respectively hold to meet any demand that may be made upon them for the payment of their notes.

1. The monthly changes in the amount of the circulation.

Let us take up the returns, and look at any year we please, and we shall find that all the months vary from each other. Beginning at January, the amount of the circulation usually declines—slowly at first, but more rapidly in May, June, and July, until, by the end of August, we arrive at the lowest

point. Then, in September, it begins to ascend, and goes on increasing till January, and then again declines till August.* Now, let us inquire what are the laws which regulate these monthly variations.

I stated that the annual variations were caused by variations in the quantity and price of agricultural produce. But, as no notes could be put into circulation until this produce is brought to market, the monthly circulation must depend upon the quantity of produce brought to market within the month. Now, it has been the custom in Ireland to commence bringing the produce to market immediately after the harvest. Hence arises the increase of the notes in September, and their further increase in the following months. But, in the beginning of the year, the landlords collect their rents, and receive from their tenants the notes for which this produce has been sold: this brings the notes back to the bank, either to be placed to his credit (if he have an account there), or otherwise, in exchange for a letter of credit on Dublin or a bill on London. The circuit of a note, then, is this:—It is obtained from the bank by a corn-merchant, who pays it to a farmer for his corn, which he ships to England. The farmer afterwards pays the note for rent to his landlord, who brings it back to the bank. Every month the bank is issuing and retiring† notes, but from August to January it issues more than it retires; hence the amount of notes in circulation increases; but from January to August it retires more notes than it issues, and hence the circulation falls.

The following important evidence, given by Mr. Murray before the Committee on Banks of Issue in the year 1841, shows in what way the monthly variations in the circulation of notes may indicate the degree of agricultural distress:—

"The condition of the people is vastly improved within the last fifteen years; and, with the permission of the Committee, I will state a substantial instance of that improvement. In 1825, the crop of Ireland,

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* See Table II. in the Appendix.

† The word *retire* is the word usually employed by Scotch and Irish bankers to denote notes *withdrawn* from circulation, either by being lodged on deposit, or paid across the counter, or by some other operation.

especially that of the south and west, came to market with extreme rapidity after it was cut, and in very bad condition, being altogether thrashed out in the open fields. Stackyards were not to be seen, or rarely so. The markets were filled to overflowing during the months of October, November, and December. In January and February these markets were comparatively thinly attended by the farmers, as the crop was nearly out of their hands. After February, a cargo of wheat or oats could not usually have been collected out of the ordinary markets. The case is now very different. The markets are much less crowded with produce in October, November, and December, and continue equally well supplied in January and February. In March and April, field-labour occupies the farmers, but in May, June, and July, the markets now continue to be well filled where none appeared before, and the corn brought to them in good order; thereby showing that the people are now in a condition to hold over property which they were formerly, from necessity, compelled prematurely to dispose of."

In the evidence given by myself before the Committee on Banks of Issue in 1841, it was stated that the highest point of the circulation was about January; but since the year 1845, the highest point has usually been in November: thus confirming the statement of Mr. Murray, that in seasons of distress the crops are brought earlier to market.

In the Parliamentary Committees of 1826, the monthly fluctuations in the circulation were advanced as an argument against the abolition of small notes, as in that case the banks would have to import gold from England every September, and return it in the spring, the expense of which they would have to reimburse to themselves by additional charges to the public.

2. Having glanced at the annual and the monthly changes in the circulation, I shall notice another feature suggested to us by these public Returns. We observe that a portion of the circulation consists of notes of 5*l.* and upwards, and another portion of notes under 5*l.*; and it may be useful to inquire if these two classes of notes are subject to the same laws, and whether they rise and fall at the same time, and in exact proportion to each other.

Viewing the monthly circulation, we observe that the small notes, like the large notes, are at their lowest amount about the month of August, and at their highest amount about

January. But we observe, also, that, from August, the small notes increase more rapidly than the large ones, and after January they decline more rapidly; so that in every year the proportion of small notes in circulation is greater in January than in August.

In a table that I have compiled for the purpose, it is shown that the small notes bear a higher proportion to the large notes in the month of January than in the month of August.* Thus, in January 1846, the small notes were 58·94 per cent. of the circulation, but in August they were only 54·33 per cent. We may also observe, that those years that have the largest circulation have also the largest proportion of small notes. Thus, in 1846, the respective proportions for January and August are 58·94 and 54·33; but in the year 1849, the proportions were only, for January, 50·72, and for August, 44·95 per cent. This is an indication that the reduction of circulation had taken place chiefly in the small notes; and this again shows that the distress had fallen chiefly on the smaller cultivators of the soil.

3. Having considered the annual and the monthly fluctuations in the currency, and the relative proportion of small and large notes in circulation, I will now proceed to another topic of inquiry.

It might be useful to know whether the total circulation stated in the Returns before us was distributed equally over the whole surface of Ireland, or distributed unequally, and what are the laws that might produce this unequal distribution.

The Returns before us would seem to afford us but little information on this subject. For, although we have the total circulation of every bank, we have not the separate circulation of each branch, and several of the banks have often branches in the same town. Still we may possibly glean some information on the subject, in regard, at least, to one of the four provinces into which Ireland is divided—the province of Ulster.

Viewing the three national banks as one, we have before us the separate circulation of six banks. Three of these

* See Table III. in the Appendix.

banks have their chief office in Dublin—the Bank of Ireland, the Provincial Bank, and the National Bank; and the other three have their chief office in Belfast—the Northern Banking Company, the Belfast Banking Company, and the Ulster Bank. Now, we may compare these two classes of banks with each other, in regard to their circulation, and we may inquire whether those banks whose circulation is confined to the province of Ulster have any peculiar features distinct from the other banks; and if so, what is the cause of such peculiarities.

The total number of banks and branches issuing their own notes in Ireland is 163, of which 70 are in the province of Ulster. As the total population of Ireland is 6,515,794, and that of Ulster, 2,004,289,* the number of banks in Ulster, in proportion to its population, would be fifty.

The following table shows the number of banks of issue in the four provinces of Ireland respectively:—

Name of Bank.	Ulster.	Leinster.	Munster.	Connaught.	Total.
Bank of Ireland .	4	10	6	4	24
Provincial Bank.	15	7	13	3	38
National Banks .	1	13	25	9	48
Belfast Banks .	50	3	..	..	53
Totals . .	70	33	44	16	163

It may be observed that the circulation of the Belfast banks include a much larger proportion of small notes than is contained in the circulation of other banks. To show this, it will be sufficient to analyse the last Monthly Return.† Upon the total circulation of all the banks, the proportion of small notes is 49·39 per cent.; upon that of the Bank of Ireland, 34·73 per cent.; of the Provincial Bank, 58·82 per cent.; of the National Banks, 59·93 per cent.; and of the Belfast Banks, 86·55 per cent.

We may inquire—What is the reason that the banks of Ulster should have so large a proportionate circulation of

* Table I. in the Appendix. † Table V. in the Appendix.

small notes? In the evidence given, in the year 1826, before the Parliamentary Committees appointed to consider the propriety of abolishing small notes in Ireland, witnesses from Ulster had stated that small notes were necessary for the purposes of the linen manufacture. Mr. J. A. Smith, a linen-merchant, and agent for the Belfast Bank at Londonderry, stated to the committee:—

"In Lancashire, I believe, all the raw materials are bought in large quantities, and by bills. In Ireland, the raw material is all bought in small parcels, and all in small notes. In Lancashire, there is only cash wanted to pay the workmen, but we want it both to pay the workmen and to buy the raw material. I am in the habit of employing my linen-buyers to go to the country markets, and I must supply them with a week's money before they start, perhaps five hundred or a thousand pounds. They have to go through the interior of the country, and do not return for a week. They make all the purchases in small quantities, and it is more convenient for them to carry notes than gold."

But, since that period, the operations of the linen-trade have undergone a considerable change; and, as now conducted, they have not, I believe, much influence on the note circulation. On this subject I may quote a letter I have received in reply to my inquiries. It is well known to the inhabitants of Ulster that formerly notes were in circulation for twenty-five, thirty, and thirty-one shillings; these were abolished by the Act of 1845:—

"A very considerable change has taken place in the linen-trade since 1826. At that time, and for some years subsequent, it was the practice for the merchants to make all their purchases from the weavers direct, in the open market. The weaver bought his own yarn, wove it, and brought it in the web to be sold as soon as it was woven. Now it is quite different. There is a sort of middleman, whom we term a manufacturer. He supplies the yarn to the weaver, pays him for the weaving, and sells to the merchant. The smaller class of manufacturers, who may have from two to ten webs, sell in the open market still; but the merchant, instead of having as many persons to pay as there were webs to pay for, has comparatively few. The larger class of manufacturers, some of whom will have upwards of a thousand looms at work, bring in large quantities of cloth, which they dispose of in their warehouses. The quantity sold in Armagh market weekly in these ways is not under 10,000 pieces, which is probably treble the quantity brought in twenty years ago. The average value of the above quantity may be about 7,000*l.*

As far as the linen trade is concerned, the circulation of bank notes must be greatly diminished. I should have mentioned that the average value of the cloth manufactured in the north of Ireland is much less by the piece than it was; first, from the cheapness of the yarn, and, secondly, from the quality of the cloth generally being of a coarser kind. In former days, the value of the webs sold in this market was from 25*s.* to 35*s.*, now it is under a pound. The fractional notes, for the purposes of the linen trade, are, therefore, not missed; and as the payments, except for the wages of weaving, are generally for considerable amounts, and every man in trade now-a-days having his banker, every transaction is settled by a check. The wages of the weaver are paid exclusively with silver, and a much larger quantity of it is now required. All this must of course lessen the circulation of small notes, and, indeed, of the paper currency generally, and we have never had a gold currency. There is also a great change in the yarn trade. Formerly a large portion of the yarn used was hand-spun, now it is almost exclusively mill-spun.

"The flax trade is more extensive than ever it was; and so far as it and the pork trade are concerned, a small-note currency is as much required as formerly; and in these trades, probably, the fractional notes are missed; but there are no complaints, now that the traders have become used to the want of them."

During the season of depression, the circulation of the Belfast banks (viewing the three banks as one) was depressed lower than that of either of the other banks. Thus the certified circulation of all the Belfast banks, as compared with the certified circulation of all the banks, is in the proportion of 13·15 per cent. But the actual circulation of the Belfast banks, in the year 1847, was only 11·93 per cent. of the total actual circulation. In 1848 it was only 11·82 per cent., and in 1849 it was 12·89 per cent. Afterwards it recovered. In 1850 it was 13·44 per cent., in 1851 it was 14·92 per cent., and in 1852, 16·61 per cent., being greater than its proportion of the certified calculation. It is known that the manufactures of Ulster are rapidly increasing; but, as I have already observed, manufacturing and commercial transactions of large individual amount do not put into circulation a proportionate amount of bank notes, such transactions being usually settled by cheques or by bills of exchange. At the same time, it will be observed that, during the last three years, the circulation of the Belfast banks has considerably increased.

Table showing the proportional Circulation of each Bank, as compared with the whole Circulation of all the Banks, for the following years, ending August:—

	Bank of Ireland.	Provincial Bank.	National Banks.	Belfast Banks.	Total.
Authorised circulation, year ended May, 1845 . .	58·84	14·60	13·41	13·15	100
Actual circulation for the year ending Aug. 1847 .	58·14	15·63	14·30	11·93	100
Actual circulation for the year ending Aug. 1848 .	59·87	15·48	12·83	11·82	100
Actual circulation for the year ending Aug. 1849 .	59·37	14·83	12·91	12·89	100
Actual circulation for the year ending Aug. 1850 .	58·49	14·36	13·71	13·44	100
Actual circulation for the year ending Aug. 1851 .	56·32	14·20	14·56	14·92	100
Actual circulation for the year ending Aug. 1852 .	54·34	14·13	14·92	16·61	100

4. I have one feature more to notice in these returns—that is, the amount of gold and silver kept by the banks, in order to meet the payment of their notes.

For several years past, the Act of 1845 has not required the Irish banks to keep any amount of gold or silver, for they have always been below the authorized circulation; but another Act, passed in the year 1828, through the influence of Mr. Spring Rice—now Lord Monteagle—requires that all notes should be payable in gold on demand at the place of issue. The gold and silver kept by the banks have only been to the amount that they deemed necessary and prudent for the purposes of business.

Table showing the proportionate Amount per Cent. of Gold and Silver as compared with the Circulation of Notes, kept by the respective Banks during the following years, ending August:—

Years.	All the Banks.	Bank of Ireland.	Provincial Bank.	National Banks.	Belfast Banks.
1847	31·44	25·28	41·77	35·97	42·42
1848	31·73	25·22	47·59	38·54	36·49
1849	36·62	30·08	52·17	43·00	42·55
1850	33·75	27·95	47·88	39·59	37·93
1851	29·05	24·27	38·71	34·24	32·87
1852	26·21	22·40	35·68	26·65	30·23

We observe from this table that the annual average amount of gold and silver kept by all the banks has varied from 29 to 36 per cent. We observe, too, that in the years when the circulation has been low, the amount of gold and silver has been higher in proportion than in those years when the circulation has been high. Taking the average of years from 1847 to 1851, the *lowest* amount of gold, in proportion to its circulation, has been kept by the Bank of Ireland. The proportion varies from 24 per cent. in 1851, to 30 per cent. in 1849. The highest proportion has been kept by the Provincial Bank. It has varied from 38 per cent. in 1851, to 52 per cent. in 1849. We may also state that, in the monthly variations, the lower the circulation, the higher the proportionate amount of gold and silver. This arises, it may be presumed, from the circumstance that the banks do not vary the amount of their gold and silver with every variation of the circulation. The proportion of silver to gold kept by all the banks has varied from 20 to 33 per cent., but the proportion varies very much with different banks.*

The amount of gold necessary to be kept against any given amount of notes in circulation is purely a question of management, and depends upon a variety of circumstances. The degree of public confidence the bank may have acquired,

* See Table IV. in the Appendix.

the excitable character of the population, the state of commercial credit, the facility of obtaining supplies, and the rapidity of communication with its branches, are all to be taken into calculation by a prudent banker. Gold can now be so readily obtained from England by means of steam-boats, and distributed throughout Ireland by means of railways, that so large an amount may not be so necessary as formerly. The railways and the electric telegraph are useful to bankers, and present another instance of the utility of scientific discoveries to men of business.

5. I shall conclude this paper by inquiring in what way will the recent discovery of gold in California and Australia practically effect the operations of the banks in Ireland.

These banks now obtain a low rate of interest on that portion of their funds which they employ in London.

So long as fresh importations of gold take place in London, and the Bank of England shall be compelled by law to purchase all the gold imported, so long will the rate of interest be low in the London money-market. For the notes issued in the purchase of this gold is thrown at first into the hands of the London bankers or money-dealers, and its abundance, in proportion to the demand, reduces the rate of interest at which it is lent. As the Irish banks keep their reserves in London, they must, in order to have securities at all times available, be content to take this low rate of interest. But there are several circumstances which would lead us to suppose that the banks will be disposed to diminish their funds in London, as far as prudently they may, and to employ a larger portion in making advances in Ireland.

The abundance of money in England, and the low rate of interest that can be obtained for it there, will naturally have a tendency to drive it for employment to Ireland. New associations will probably be formed to constitute public works, such as railways, &c., in Ireland, or to carry on those branches of manufacture or commerce that can advantageously be carried on by public companies. These associations, by the capital they bring into the country, by the new operations they may introduce, by the confidence they may infuse,

and even by the occasional advances they may need, will be useful to the banks and to the country.

The circumstances of Ireland, too, are favourable to this further employment of capital in Ireland. The Encumbered Estates' Bill has broken down large estates, and placed them in the hands of parties who are in a condition to improve them. Large land proprietors, who are nominally in possession of great estates, which are mortgaged for more than they are worth, are not desirable customers to a bank, nor are pauper cultivators, who are always behind in their rents; but the cultivators of moderate-sized estates, which they have purchased by the results of previous industry, and who have skill and prudence to cultivate them with advantage, are parties to whom banks may advance additional capital, with advantage to themselves and to the country. This is the class that forms "a nation's pride;" and to this class the banks of Ireland may in the spirit, if not in the form, of the cash-credit system make such advances as shall produce in Ireland the same beneficial effects which that system has produced in Scotland.

Another circumstance is favourable to the advance of capital by the banks. From the extent of emigration, many instances must have occurred of small farms being united and constituting large ones. The occupiers of these large farms will be a superior class of people, and more worthy of credit and confidence. A banker may readily and prudently grant assistance to the occupier of a large farm, formed of ten small farms, though he could not prudently give assistance to any one of the ten by whom the small farms were cultivated.

The state and condition of the banks of Ireland are favourable to their efficiency in promoting the prosperity of the country.

The history of banking proves that it is better for a country to have a small number of large banks than a large number of small banks. The latter case has never been a natural production, but has been the result of injudicious legislation. The banks in Ireland are sufficiently strong to command public confidence, and have the means of increasing their capital, and extending their branches. They are

numerous enough to prevent monopoly, and yet few enough to be protected against the spirit of excessive competition. No new bank of issue can be formed. Though this prohibition is, as we conceive, a violation of a sound general principle, yet it is one of those practical enactments which seem to show that, in political economy, some of its general principles, or, as they are called, abstract principles, admit occasionally of beneficial exceptions. This law serves to prevent the formation of weak banks, which might inflict on the country the evils of excessive competition; and, as in the case of the Agricultural Bank of 1836, might weaken public confidence in better establishments. A strong confidence in its banking institutions, as in Scotland, is the growth of generations; and, when justified by the character of the banks themselves, is a powerful cause of national prosperity. Banks thus situated, having no reason to be anxious about their own safety, can, in seasons of distress, employ the whole of their resources to alleviate the public calamity.

From all these circumstances we are led to believe that we may expect in future years a high degree of prosperity for Ireland, arising from the administration of her banking institutions.*

* Upon the Act of 1845, for the Regulation of Banks in Ireland, we may observe :—

1. The authorised issue is like that of the banks of Scotland, the average amount of the year ending on the 1st day of May, 1845.

2. If any two banks unite, the new bank may issue to the amount of the circulation of both the united banks. Here the law is the same as that of Scotland, but different from that of England.

3. If any bank gives up its issue, and agrees to issue Bank of Ireland notes, the Bank of Ireland may increase her authorised issue to the full amount of the issue of the bank whose notes are withdrawn. In England, the Bank of England can, in a similar case, issue only to the extent of two-thirds of the issue of the bank whose notes are withdrawn. There is no similar provision in the Act referring to Scotland.

4. Another difference may be noticed between Ireland and Scotland. All the notes issued at the branch banks in Scotland are payable only at the head office of the bank that issued them. In Ireland, all the notes are legally demandable in gold at the branches where they have been issued. Hence the banks in Ireland must keep some gold at every branch, while the banks in Scotland need not have any gold except at the head office. In both countries the banks must hold a stock of gold equal to the amount of notes in circulation beyond the authorised issue; and, according to the Act, this gold must be at the head office, or chief place of issue. In the Provincial Bank of Ireland, these places are Cork, Limerick, Dublin, and Belfast.—*Gilbart's Practical Treatise on Banking.*

APPENDIX.

Table I.

The Population of Ireland in 1841 and 1851

Provinces.	1841.	1851.	Decrease.
Ulster	2,386,373	2,004,289	382,084
Leinster . . .	1,973,731	1,667,771	305,960
Munster . . .	2,396,161	1,831,817	564,344
Connaught . .	1,418,859	1,011,917	406,942
Totals . . .	8,175,124	6,515,794	1,659,330

Table II.

Showing the Proportionate Circulation of each Bank, as compared with their Authorised Circulation, in January and August in each Year.

Name of Bank.	1846.		1847.		1848.		1849.	
	Jan.	Aug.	Jan.	Aug.	Jan.	Aug.	Jan.	Aug.
All the Banks .	116·4	101·9	118·3	80·20	81·78	67·88	73·56	60·32
Bank of Ireland	116·3	103·7	112·7	83·12	82·64	70·60	72·70	62·61
Provincial Bank	124·4	111·3	129·3	83·09	86·83	69·48	77·67	59·20
National Banks	105·2	95·87	127·7	81·59	76·53	62·51	70·73	57·02
Belfast Banks .	119·8	90·15	121·7	62·67	77·69	59·43	75·81	54·66

Name of Bank.	1850.		1851.		1852.	
	Jan.	Aug.	Jan.	Aug.	Jan.	Aug.
All the Banks . . .	73·50	64·18	75·26	62·61	73·66	69·19
Bank of Ireland . .	71·99	65·30	70·78	61·68	66·46	66·90
Provincial Bank . .	72·36	61·38	74·14	58·56	71·83	65·79
National Banks . .	74·72	65·77	81·64	64·80	81·58	74·38
Belfast Banks . . .	80·24	60·65	90·05	68·98	99·76	77·88

TABLE III.

Showing the Proportion of Large and Small Notes Circulating in January and August in each of the following Years:—

Date.	Large.	Small.	Total.
1846, January .	41·06	58·94	100
„ August . .	45·67	54·33	100
1847, January .	41·93	58·07	100
„ August. .	52·39	47·61	100
1848, January .	48·17	51·83	100
„ August . .	54·79	45·21	100
1849, January .	49·28	50·72	100
„ August. .	55·05	44·95	100
1850, January .	47·28	52·72	100
„ August . .	52·20	47·80	100
1851, January .	45·48	54·52	100
„ August . .	50·63	49·37	100
1852, January .	43·73	56·27	100
„ August . .	50·61	49·39	100

TABLE IV.

Proportion of Gold to Silver held by each Bank during the Years ending December, 1847 to 1851.

Name of Bank.	1847.		1848.		1849.		1850.		1851.	
	Gold.	Silver.	Gold.	Silver.	Gold.	Silver.	Gold.	Silver.	Gold.	Silver.
All the Banks . .	79·60	20·40	66·45	33 55	67·67	32·33	70·88	29·12	74·83	25·17
Bank of Ireland . .	82·85	17·15	62·17	37·83	63 51	36·49	69·16	30·84	72·54	27·46
Provincial Bank . .	78·39	21·61	69·73	30·27	68·05	31·95	70·50	29·50	75·50	24·50
National Banks . .	75·32	24·08	67·30	32·70	76·81	23·19	72·59	27·41	74·88	25·12
Belfast Banks . .	76·03	23·97	74·80	25·20	71·35	28·65	75·01	24·99	80·40	19·60

TABLE V.

Statement of Circulation and Stocks of Specie of Banks of Issue in Ireland, for the Four Weeks ending August 7th, 1852.

Banks.	Certified Issue.	£5 and upwards.	Under £5.	Total.	Gold.	Silver.	Total.
	£	£	£	£	£	£	£
Bank of Ireland . .	3,738,428	1,632,500	868,500	2,501,000	419,817	155,801	575,618
Provincial Bank . .	927,667	251,380	358,976	610,356	174,712	56,359	231,071
Belfast Bank . . .	281,611	40,286	224,262	264,548	101,361	41,643	143,004
Northern Bank . .	243,440	22,045	143,770	165,815	40,290	14,980	55,270
Ulster Bank . . .	311,079	25,267	195,591	220,858	43,954	6,700	50,654
National Bank . .	761,757	237,446	357,372	594,818	113,818	46,258	160,076
Ditto, Carrick-on-Suir	24,084	4,717	7,087	11,805	3,144	905	4,049
Ditto, Clonmel. . .	66,428	11,842	15,413	27,255	5,396	1,535	6,931
Totals . . .	6,354,494	2,225,483	2,170,971	4,396,455	902,492	324,181	1,226,673

THE LAWS OF THE CURRENCY,

AS EXEMPLIFIED IN THE CIRCULATION OF COUNTRY BANK NOTES IN ENGLAND SINCE THE PASSING OF THE ACT OF 1844.

[This Paper was read before the Statistical Section of the British Association at Liverpool, 22nd September, 1854; therefore the statements refer only to that period.]

It is a gratifying circumstance that questions relating to the currency are no longer connected with party politics, but are now regarded as presenting topics for scientific investigation; and we believe that by no science can they be more clearly and successfully investigated than by the science of statistics.

Our inquiries in this paper will be limited to that portion of our currency which consists of notes issued by country bankers, and we shall consider them chiefly in reference to those fluctuations in the amount of their circulation which have occurred since the passing of the Act of 1844.

1. Country bank notes were originally called goldsmiths' notes, similar notes having been first issued by the goldsmiths of London.

"That part of the business of banking which consists in the borrowing of money, with a view of lending it again at a higher rate of interest, does not appear to have been carried on by bankers until the year 1645, when a new era occurred in the history of banking. The goldsmiths, who were previously only money-changers, now became also money-lenders. They became also money-borrowers, and allowed interest on the sums they borrowed. They were agents for receiving rents. They lent money to the king on the security of the taxes. The receipts they issued for the money lodged at their houses circulated from hand to hand, and were known by the name of 'Goldsmiths' notes.' These may be considered as the first kind of bank notes issued in England.

"When our merchants became enriched by commerce, they wished for a place of security in which they might deposit their wealth. Hence they usually sent their money to the mint in the Tower of London,

which became a sort of bank. The merchants left their money here when they had no occasion for it, and drew it out as they wanted it. But in 1640, King Charles I. took possession of 200,000*l.* of the merchants' money that had been lodged in the Mint, and from that period the merchants kept their money in their own houses, under the care of their servants and apprentices. On the breaking out of the civil war between Charles I. and the Parliament, it became very customary for the apprentices to rob their masters, and then run away and join the army. As the merchants could now place no confidence either in the public authorities or in their own servants, they were under the necessity of employing bankers. These bankers were the goldsmiths."*

> "Amid the troubles of those times, when public trust was shaken,
> Money for safer custody, was to the goldsmiths taken."†

Bank notes are frequently referred to in our Acts of Parliament, as "bankers' or goldsmiths' notes."—In the Act of 1704, which removed all "doubts" as to their legality, they are mentioned as "notes made and signed by any person or persons, body public or corporate, or by the servant or agent of any corporation, banker, goldsmith, merchant, or trader." Even the notes issued in Ireland were called goldsmiths' notes. By an Act of the Irish Parliament passed in 1709, "notes issued by any banker, goldsmith, merchant, or trader, whether payable to order or bearer, were rendered assignable and indorsable over as inland bills of exchange. And in 1729, the forgery of bills of exchange, goldsmiths' or bankers' notes, above the value of 5*l.* was declared felony, and the felon was to be burnt in the hand or transported at the pleasure of the Court.

After the establishment of the Bank of England in the year 1694, the notes of that corporation superseded the goldsmiths'. The business of banking, too, became gradually separated from that of a goldsmith, though we learn from a speech delivered in Parliament, in the year 1746, that most of the London bankers were at that time members of the Goldsmiths' Company.

2. I am not aware that we have any authentic details of the rise and progress of country banking in England. It is

* The History and Principles of Banking.

† Brewer's Poetical Chronology.

generally understood that very few country banks existed previous to the American war—that they rapidly increased after the termination of that war—that they received a severe check in the year 1793, when twenty-two became bankrupt, and that they increased with wonderful rapidity after the passing of the Bank Restriction Act. Since the year 1808, every bank that issues notes has been compelled to take out an annual licence *—and since 1804, the notes have been subject to a stamp duty.†

In the year 1775, bankers were prohibited by Act of Parliament to issue notes of a less amount than 20*s*. And in 1777, they were prohibited to issue notes of a less amount than 5*l*. But after the passing of the Bank Restriction Act in 1797, the last restriction was removed, and the country banks commenced issuing notes of 1*l*. and 2*l*. And in 1822, the permission to issue such notes was continued until the expiration of the Bank Charter in 1833. But after the memorable panic of 1825, the government refused to issue any more stamps for notes under 5*l*., and it was enacted that all such notes already stamped should cease to be issued by the bankers after the year 1829.

The speculations that preceded the panic of 1825 were attributed by the government of the day to a wild spirit of speculation fostered by the country banks. To guard against the recurrence of similar evils, not only were notes under 5*l*. abolished but two other measures were introduced: banks of issue consisting of more than six partners were permitted to be formed at greater distance than sixty-five miles from London; and the Bank of England was induced to open branches in the provinces.

3. And here it will be proper to notice a peculiarity in the county of Lancaster, and particularly in Manchester and Liverpool. In these places there were no country notes, and but a small proportion of Bank of England notes. The circulation consisted mainly of bills of exchange, which passed from hand to hand like bank notes, having the indorsement of all the parties through whose hands they had passed. In

* See Table I. † See Table II.

Liverpool, large notes were required to pay the duties at the Custom House; and in Manchester, small notes were required to pay wages. These were obtained from the Bank of England in London; but the transactions between manufacturers and dealers were transacted by bills of exchange, and as these bills were all made payable in London, bank notes were not required in Manchester or Liverpool even for the payment of these bills.

4. The measures adopted by the legislature in the year 1826 led to the establishment of branches of the Bank of England in Manchester and Liverpool. From this period the circulation of bills of exchange declined, and was superseded by Bank of England notes. This was accelerated by the circumstance that the Joint-stock banks formed in these places did not issue their own notes, but those of the Bank of England. This establishment had offered to discount for the Joint-stock banks at one per cent. less than they charged to the public, and the Joint-stock banks thought it more for their interest to obtain the notes of the Bank of England on these terms than to issue notes of their own. The circulation of the country now consisted of notes of the branches of the Bank of England, notes of the Joint-stock banks, and notes of the private bankers; and as many of the weak private banks had ceased to exist, and as others had merged into Joint-stock banks, and as all notes under 5*l.* were abolished, it was supposed that the country had now obtained the advantage of a secure circulation.

5. But in the latter end of the year 1836 another panic arrived, when it was discovered that the country circulation was again at fault. But the charge now was, not that it was unsafe, but that it was excessive; and this charge of having issued to excess was more especially directed against the Joint-stock banks.

Here it may be observed that in the panic of 1825 the amount of country notes in circulation was unknown. No returns at that time were made to the government, and the amount of notes in circulation could only be calculated, and that very imperfectly, from the number of stamps, of different

denominations, issued from the Stamp Office.* But in the year 1833, the Chancellor of the Exchequer (Lord Althorp) obtained an Act (3 & 4 William IV., c. 83), which required all banks issuing promissory notes to make returns to the Stamp Office for the average amounts of notes in circulation in the quarters ending the first day of January, April, July, and October, in each year. The quarterly average was to be formed from the amount in circulation at the end of each week. These quarterly returns were afterwards published in the 'London Gazette.'†

From these returns it was evident that the country circulation had increased by the beginning of the year 1836,‡ and as a general spirit of speculation prevailed at the same time, it was inferred that the country circulation was the cause of this speculation; and as by the end of the year the speculations had ended in panic, the country circulation was the cause of this panic.

6. Another panic occurred at the end of the year 1839; and here, again, blame was cast on the country notes. But the complaint now was not that the country circulation was unsafe or excessive, but that it was ill-regulated. An opinion had been adopted by some distinguished political economists that the country circulation, as well as that of the Bank of England, ought to correspond at all times with the amount of gold in the Bank of England. It is true that the circulation of the Bank of England did not fluctuate in exact accordance with this amount of gold; but the country circulation did not correspond even with that of the Bank of England. And as the fluctuations in the country circulation did not correspond with the fluctuations either of the gold of the Bank of England or with the notes of the Bank of England, it was assumed that the country circulation was ill-regulated; and, being ill-regulated, it was assumed to be the cause, or at least one cause, of the panic that occurred at the end of the year 1839.

To examine into the truth of these opinions, a committee

* See Tables III. and IV.

† See Table V. ‡ See Table V.

of the House of Commons was appointed, in the year 1840, to consider the state of the law with reference to banks of issue. The committee examined witnesses during the sessions of 1840 and 1841; but the only practical result was that an Act was passed requiring weekly returns of their circulation from every bank of issue.*

7. Before proceeding farther, it may be fair to state the replies which the country bankers at various times gave to these severe accusations.

In reply to the charge that the currency was unsafe, from the number of failures which occurred among the country banks of issue, they state in their memorial to Earl Grey, in the year 1833, "The number of London bankers that have failed is believed to be relatively greater, and the amount of their debts relatively larger, than that of country banks."

In reply to the charge that they had by an excessive issue of their notes promoted speculation, they state:—

"All experience shows that great fluctuations have originated in the speculations of influential merchants, and never originated in the channels to which the issues of country bankers are confined; their source is in great mercantile cities, and they are promoted by the issues of the Bank of England. That this is the invariable course which fluctuations resulting in excess and derangement take is proved by the evidence of Mr. Ward and others, before the Bank Charter Committee, and is fully explained by the speeches of the king's ministers in the year 1826. The debts of a few speculative merchants who failed in a single year in the town of Liverpool, where country bankers' notes never circulated, amounted to between seven and eight millions sterling, and their bills were either lodged in the Bank of England for loans, or were current in all parts of the country, stimulating circulation and promoting excess."

In reply to the charge that they had turned the foreign exchanges against this country, they declare:—

"Your memorialists are prepared to prove that the issues of country bankers have less tendency to promote fluctuations in the country than those of the Bank of England; and that their effect in throwing the exchanges against the country is comparatively insignificant. The slightest attention to facts would indicate the truth of these positions.

* 4 & 5 Victoria, cap. 50.

It has been established by parliamentary evidence that the issues of country bankers fluctuated much less between the years 1817 and 1826 than those of the Bank of England; and it is indisputable that adverse exchanges, which endanger the bank, always succeed great importations of foreign produce, and that they never can be occasioned by large exportations of domestic productions. Now it is notorious that the circulation of country bankers acts almost exclusively in promoting these productions: and that when it is in an extended state, the direct and proper influence even of an alleged excess of that circulation would be to provide the means of paying for the importations of foreign produce without causing so great an export of gold as to derange and endanger the monetary system of the country."

In reply to the charge that they had not governed their issues of notes by the foreign exchanges, they say that such a system is not applicable to the nature of a local circulation:—

"Then, with respect to miners and manufacturers, any system which would bring them into immediate contact with the operation of the bank for regulating the foreign exchanges without that protection and defence from those convulsive changes which the local circulations afford would be a system pregnant with indescribable hazard."*

8. Such was the state of the currency question when the late Sir Robert Peel came into office in the year 1841. The charter of the Bank of England was subject to renewal in the year 1844, and in that year was passed an Act of Parliament "to regulate the issue of bank notes, and for giving to the Governor and Company of the Bank of England certain privilêges for a limited period."†

The charges against the country circulation had been, that it was unsafe, excessive, and ill-regulated. The Act of 1844 dealt chiefly with the second of these accusations.

According to the provisions of this Act, no new bank of issue was permitted to be established in the United Kingdom, and the maximum amount of notes which each existing bank of issue in England might issue upon an average of four weeks should, after the 10th October, 1844, be the average amount of the notes in circulation during the twelve weeks ending the 27th April, 1844: that returns should be made

* See The History and Principles of Banking, section on Country Bankers.

† 7 & 8 Victoria, c. 32.

to government of the average amount of notes in circulation during each week, and if, upon an average of four weeks, the amount in circulation exceeded the authorized amount, the bank should be subject to a penalty equal to the amount of that excess. That if any existing bank, not having more than six partners, should increase the number of partners to more than six, it should lose the privilege of issue. That if any two banks should unite, so as to increase their number beyond six, they shall lose the right of issue. And if any banker shall become bankrupt, or cease to carry on the business of a banker, or cease to issue notes, it shall not be lawful for such banker at any time thereafter to issue any such notes.

The charge of being unsafe the Act did not meddle with, except so far as limiting the issues of each bank, and prohibiting any new bank of issue, may be regarded as elements of safety. But the Act of 1844 left the country circulation still unregulated by the amount of gold in the Bank of England. In the month of October, 1844, when the Act came into operation, the amount of gold in the Bank of England was 12,149,367*l.* On the 23rd of October, 1847, the amount of gold was 6,745,354*l.*, but the law required no corresponding reduction in the amount of the country circulation. On the 10th of July, 1852, the gold had advanced to 21,845,390*l.*, but the law permitted the country circulation no corresponding expansion. It does not, therefore, appear to have been the object of the Act, that the country bankers should regulate their issues by the amount of gold in the Bank of England.

9. The maximum was the average of the twelve weeks ending April 27, 1844; but there seems to be no reason why this period should have been chosen. Sir Robert Peel originally proposed that the maximum should be the average of the previous two years. The private bankers asked for the average of the previous five years. The Joint-stock banks asked for the *maximum* of the two years, contending that if an average were made a maximum, the circulation would be still farther reduced. Sir Robert Peel ultimately determined

on the average of the twelve weeks previous to the announcement of the measures to parliament: the respective amounts are as follows:—

	Private Banks.	Joint-stock Banks.
	£	£
Average of the two years . .	4,916,494	3,061,562
Average of the five years . .	5,761,792	3,485,329
Maximum of the two years .	5,295,239	3,752,867
Average of the twelve weeks, as ultimately certified . .	5,153,407	3,495,446

The private banks were 205, and the Joint-stock banks 72.

The following are the average amounts of the country circulation during the previous five years:—

	£		£
1839	11,715,527	1842	8,249,052
1840	10,457,057	1843	7,667,916
1841	9,671,643		

This decline was attributed by the country banks to the dulness of trade, the low price of corn, and other temporary causes. But, doubtless, there were also other causes of a more permanent description. Some country banks had withdrawn their circulation, and issued the notes of the Bank of England, in consequence of advantageous proposals from that establishment. The increased facilities of travelling by railway, and other means, had tended to diminish the amount of notes in circulation, by causing them to be returned to the bankers more rapidly for payment. The uniform penny post commenced in January, 1840, and the registry of letters in July, 1841, and these enabled every country banker to send off to London every night the notes of other bankers he had received during the day, and thus the circulation was reduced. The practice of keeping banking accounts had also extended very much; so that, instead of carrying notes in their pockets as formerly, people now lodged their notes with their banker, and made their payments by giving cheques on the bank.

From these causes it seems probable that the actual issue

of the country banks would not have regained its former amount, even if the Act of 1844 had never been passed. The Act, however, had the necessary effect to render the actual circulation less than even the authorized issue. If you apply a maximum to a fluctuating circulation, the average amount must be less than a maximum. If in April, when the circulation is at its highest, the amount is less than the maximum, it will fall still lower in August. The maximum, too, was divided among many banks: each banker was obliged to keep below his share of the maximum, and when all these shortcomings are added together, they amount to a considerable sum. The penalty, too, was so great—equal for every offence to the amount of the excess—that prudent bankers kept their circulation much below their maximum, in order to avoid the chance of incurring these heavy penalties.

10. There are several circumstances which show that in some instances the Act was felt to be a restriction. Attempts have been made to evade its provisions. The first occurred when Sir Charles Wood was Chancellor of the Exchequer, and he issued a circular letter to the country bankers, stating that if such attempts should be continued, he would introduce a more stringent measure. The second took place in 1853. When the Act was passed authorizing cheques to be drawn beyond fifteen miles upon a penny stamp, some banks issued on a penny stamp cheques which in form resembled bank notes. The Stamp Act just passed prohibits this practice.

We have observed, too, in reference to individual banks, that, in the returns, the fourth week is often less than the three preceding weeks. The average is taken every four weeks. If a banker finds that in the first three weeks he has exceeded his limit, he stops his own issues and sends to London for a supply of 5*l.* and 10*l.* Bank of England notes. Even this may not be sufficient, and then he sends his clerks round to all the neighbouring banks, asking, "Have you got any of our notes? If you have, we wish to pay them immediately, in order to keep down our average." Thus, in some instances the country circulation has become in one sense a

regulated currency. It is so regulated that in every fourth week the amount is less than in either of the three preceding weeks. Another circumstance which shows that the Act is felt to be a restriction is, that some Joint-stock banks do not issue notes at all their branches. They issue to their authorized amount at a portion of their establishments, and at the rest they issue the notes of the Bank of England.

A further symptom of the inadequacy of the country circulation is the increased circulation of the branches of the Bank of England. In 1836, when the country circulation was 11,700,000*l.*, the branch circulation was 3,500,000*l.* In the year 1846, the country circulation was only 7,700,000*l.*, and the branch circulation had increased to 6,500,000*l.**

11. At the same time we believe that much of the restriction that would otherwise have been felt has been prevented by a cause to which we have already referred, the extension of the deposit system of banking. Formerly, to keep a banker was the privilege of a few; now it is the practice of the many. It is easy to perceive how this operates. If all the notes in a town are lodged with the bankers, and the depositors make their payments by cheques, notes are not required; the payment is made by a transfer from one account to another. If the two parties keep accounts with different bankers, the effect is the same; for the country bankers make their exchanges with each other daily or weekly, and pay the difference by an order on their London agent. This order again is passed through the clearing, and the differences between the clearing bankers are paid by a draft on the Bank of England. It is thus theoretically possible, that all the monetary transactions of a country may be settled by a system of transfers; and it is practically the fact, that a large proportion of them are so settled; and this amount has, of late years, largely increased, and is still increasing. We have no published accounts of the amount of deposits in the country banks, but we have of the Joint-stock banks of London. The oldest of these banks has been established only twenty years, yet their united deposits in London

* See Table VI.

are now above 22,000,000*l.*, while during the same period the private deposits of the Bank of England have increased from 5,000,000*l.* to 12,000,000*l.** It cannot be supposed that all these deposits have been withdrawn from the private bankers. These large deposits are owing, I think, to the greater number of persons who now keep accounts with bankers, increased, no doubt, in recent years by the increasing wealth and prosperity of the country; and though I have not the returns necessary to prove it statistically, I believe that similar operations are taking place throughout the country; and that the prosperity of Joint-stock banks has not in this respect caused any corresponding decline among the private banks.†

12. I shall now proceed to notice those fluctuations that have taken place in the country circulation since the passing of the Act of 1844.

We have observed elsewhere :‡—

"When our figures are chronological facts, new and highly important truths are sometimes ascertained by merely observing if any specific facts recur at certain periods. When we have ascertained any uniformity in the occurrence of certain events, we call that uniformity a LAW. Thus those uniformities that were found to occur in regard to the deaths at various ages are now called the Laws of Mortality. A few years ago a committee of the House of Commons published the average *monthly* circulation for several years of the notes that had been issued respectively by the Bank of England, the country banks, the banks of Scotland, and the banks of Ireland. We have deduced from these returns what we term 'The Laws of the Currency:'—

"'We will take the monthly returns of the circulation for the period that is past, that is, from the end of September, 1833, to the end of 1843, and endeavour, by observing their various revolutions, to discover if they are governed by any fixed causes or principles—to ascertain if those principles are uniform in their operation; and if we should discover that the revolutions of the currency are regulated by any uniform principles, we shall call those principles the Laws of the Currency.

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* See Table VII.

† The recent admission of the Joint-stock banks into the clearing-house, and the practice of settling the clearance balances by cheques on the Bank of England, will still further economise the use of bank notes.

‡ Logic for the Million. See the section on the application of Logic to Statistics.

" 'We shall begin with that portion of the currency which consists of notes issued by the Bank of England. On looking over the monthly circulation of the Bank of England given in the Table, No. 34, in the Appendix to the Report of 1840, we observe, that the circulation of the months in which the public dividends are paid is higher than in the subsequent months. Thus, the average circulation of January is higher than that of February or March. The circulation of April is higher than that of May or June. The circulation of July is higher than that of August or September. And the circulation of October is higher than that of November or December. This, then, we may consider as one law of the circulation of the Bank of England—that it ebbs and flows four times in the year, in consequence of the payment of the quarterly dividends. This law does not apply to any other bank, as all the Government dividends are paid by the Bank of England.'

" 'On inspecting the monthly returns of the country circulation for the last ten years, we find that the highest amount is in the month of April: thence it descends, and arrives at the lowest point by the end of August, which is the lowest point in the year. It gradually increases to November; a slight reaction takes place in December; but it then advances until it reaches the highest point in April. The general law is, that the country circulation always makes one circuit in the year—being at its lowest point in August, and advancing to December, and continuing to advance to its highest point in the month of April, and then again descending to its lowest point in August.'

" 'In Scotland the lowest point of the circulation is in March, and the highest in November. The advance, however, between these two points is not uniform—for the highest of the intervening months is May, after which there is a slight reaction; but it increases again until November, and falls off in December. The reason of the great increase in May and November is, that these are the seasons of making payments. The interest due on mortgages is then settled, annuities are then paid, the country people usually take the interest on their deposit receipts, and the servants receive their wages. There are frequently large sums transferred by way of mortgage. It is the custom of Scotland to settle all transactions, large as well as small, by bank notes—not by cheques on bankers, as in London. It is remarkable that these monthly variations occur uniformly every year, while the amount of the circulation in the corresponding months of different years undergoes comparatively very little change.'

" 'From what we have already said of the laws of the currency, those of our readers who are acquainted with Ireland will be able to judge beforehand of the revolutions of her circulation. Being purely an agricultural country, the lowest points will of course be in August or September, immediately before the harvest, and the commencement of the cattle and bacon trade. Then it rises rapidly till it reaches its highest

point in January, and then gradually declines. As an agricultural country, we should naturally expect that during the season of increase the circulation would expand most in the rural districts; and so we find that the circulation of the Bank of Ireland in Dublin expands very moderately—that of her branches, which are located chiefly in large towns, expands more—while the circulation of the joint-stock banks, which are located in the agricultural districts, receives the largest increase. Again, the purchases and sales of agricultural produce are known to be in small amounts; and hence the notes of the smallest denomination receive the largest relative increase. The annual changes of the Irish circulation are governed chiefly by the produce of the harvest, and the prices of agricultural products. These are the laws of the circulation of Ireland.' "

13. The principles which these figures are supposed to have established are thus stated in the evidence delivered before the Committee on Banks of Issue in the year 1841:—

"What is the general conclusion which you propose to draw from the tables you have put in?" . . . . "The general conclusion I would draw is, that the Bank of England is governed by certain laws which do not apply to the country circulation; that the country circulation of England is also governed by laws peculiar to itself; that the circulation of Ireland is also governed by laws peculiar to itself; that the circulation of Scotland is also governed by laws peculiar to itself; that those respective circulations are all governed by uniform laws, as is shown by their arriving at nearly the same point at the same period of the year; and, therefore, that you cannot introduce any system by which all those various circulations, governed by different laws, can be amalgamated into one system: that such a system would be at variance with itself, and would tend to destroy that beautiful system of country banking which now exists in this country—a system which has tended very much to the prosperity of this country, which by receiving the surplus capital of different districts, and giving out the capital for the encouragement of trade, calls forth all the natural resources of the country, and puts into motion the industry of the nation, and at the same time supplies a circulation which expands and contracts in each district according as it is required by the trade or agriculture of the district. Those expansions or contractions take place at different periods of the year in different districts; the circulation expands when the wants of trade require it, and when no longer wanted, it again returns: and I think this beautiful system, in the language of the resolutions passed by the deputies from the Joint-stock banks, 'has greatly promoted the agriculture, trade, mining, and general industry of the nation, and that equal advantages cannot be produced by one bank of issue.' "

14. Our first inquiry, then, shall be,—Whether the fluctua-

tions in the country circulation have been governed by the same laws since the passing of the Act of 1844 as they were before?

Upon inspection of Tables VI. and VII. in the Appendix, we find that the country circulation since 1844 has fluctuated in the same manner. We find, too, that the country circulation at these two periods (before and after 1844) conform to each other not only in their compliance with these laws, but also in their exceptions to these laws. The years 1836 and 1839 were years of panic, and as panics usually occur at the end of the year, the country circulation at the end of these years was less than in the preceding August. The year 1847 was also a year of panic, and here we find, too, that the circulation was lower in December than in August:—

Years.	April.	August.	December.
	£	£	£
1836	12,403,634	11,658,494	11,228,594
1839	12,662,312	10,868,785	10,698,390
1847	8,024,168	7,133,525	5,939,007

In Table VII. we have stated the circulation of both the private and the Joint-stock banks, and we find that each class of banks illustrates the same rule: both rise and fall at the same time, and are obviously regulated by similar laws.

To place these fluctuations in a more striking point of view, and at the same time to exhibit them in comparison with the fluctuations in the notes of the other banks, and with the amount of gold in the Bank of England, we have constructed Table VIII., showing the change which occurred during the year 1845—the first year after the Act of 1844 came into operation. In this table we have represented the amount in circulation in the month of January—in each case by the number 100; and the variations from this number in each subsequent month exhibit the monthly fluctuations in the amount of the circulation.

15. We will now proceed to a further analysis of the returns before us. The country circulation is divided into two classes—that of the private banks and that of the Joint-stock

banks.—We will begin with the amounts which each class of banks is at present authorized to issue:—

	£
167 Private banks are authorized to issue . .	4,616,609
65 Joint-stock banks are authorized to issue	3,325,857
Total authorized issue . . .	£7,942,666

The average issue of the private banks is 27,755*l.*; and of the Joint-stock banks 51,167*l.* The highest issue of a private bank is 112,280*l.*; and of a Joint-stock bank 442,371*l.* The lowest issue of a private bank is 3,201*l.*; and of a Joint-stock bank 1,503*l.* In Tables XI. and XII. in the Appendix, we have given a further classification of the respective circulations of the private and Joint-stock banks.

By the provisions of the Act, if any bank, not having more than six partners, should increase its partners to a greater number than six, it would lose the power of issue. So far as regards the amount of the circulation, this regulation seems unnecessary. Having fixed the maximum which each bank might issue, an increase in the number of its partners, though it might increase the safety of the notes to the public, could not increase the amount in circulation. If, indeed, the object were gradually to reduce or annihilate the country circulation, then this enactment might tend to answer its purpose. We stated in 1844, "Without casting any reflection on the private bankers, it may fairly be calculated that in the course of a few years their circulation will be less than at present. An unwillingness to publish the amount of their issues, a disposition to retire from business, misfortune, death, and other circumstances, may cause the withdrawal of the circulation of a country bank, and when once withdrawn, it can never be restored."—Since that time thirty-seven country private banks have ceased to issue; these are—

		£
11 Banks within the circle of 65 miles, whose fixed issue was		110,194
26 Banks without the circle	,, ,,	426,604
37 Total.	Total	£536,798

Within the same period seven Joint-stock banks, having a fixed issue of 169,589*l.*, have ceased to issue. The original

certified issue of 8,648,853*l.* has thus been reduced to the above sum of 7,942,666*l.*

The following is a list of the Joint-stock banks and their respective issues :—

	£
Western District Banks at Devonport	18,125
Suffolk Joint-stock Bank at Ipswich	7,449
Stockton and Durham Bank at Stockton	8,290
Leeds and West Riding Bank at Leeds	18,937
Leeds Commercial Bank at Leeds	13,914
Sheffield and Retford Bank at Sheffield	18,744
Union Bank at Newcastle-on-Tyne	84,130
Total	£169,589

16. We will now classify the country circulation topographically.—Within a circle of sixty-five miles of London, a circle of 130 miles in diameter—there is no Joint-stock bank of issue, nor any branch of the Bank of England. The issuing country banks may, therefore, be divided into those within this circle and those without it. And we then find :—

	£
47 Private Banks, within the circle, are authorized to issue	1,303,318
120 Private Banks, without the circle, are authorized to issue	3,313,291
65 Joint-stock Banks, without the circle, are authorized to issue	3,325,857
Total country circulation	£7,942,666

The average circulation of private banks within the circle is 27,730*l.*; and without the circle, 27,765*l.*

17. But we have referred only to the authorized circulation. We will now take a view of the actual circulation.—We will take that of the year 1853, and refer to the months of April, August, and December :—

	Authorized Circulation.	Actual Circulation.		
		April.	August.	December.
	£	£	£	£
47 Private Banks, within the circle	1,303,318	1,010,932	940,184	984,581
120 Private Banks, without the circle	3,313,291	2,852,361	2,708,110	2,849,172
65 Joint-stock Banks	3,325,857	3,132,388	2,984,629	3,056,085

Taking the authorized circulation in each case to be represented by 100, the following will be the proportion of the actual circulation:—

		April.	August.	December.
47 Private Banks . .	100	77·5	72·1	75·5
120 Private Banks . .	100	86·8	80·8	84·5
65 Joint-stock Banks .	100	92·5	87·7	89·0

It will thus be seen that, as compared with their respective authorized circulations, the actual circulation of the private banks is less than that of the Joint-stock banks, and that of the private banks within the circle is less than that of the private banks without the circle. We cannot assign causes with so much certainty as we can state facts. Within the circle of sixty-five miles, the notes, which are all payable in London, may be sent there more rapidly for payment, and thus the circulation be reduced. Perchance, too, the non-issuing Joint-stock banks may have withdrawn some of the business of the private bankers in that circle, and thus their circulation may have become still further reduced, and that of the Bank of England increased. It is a mistake to suppose that a banker can keep out as many notes as he likes. If his rivals take from him any portion of his deposit or his discount business, his circulation necessarily becomes less. With regard to the private banks and the Joint-stock banks beyond the circle, the difference may arise in part from the greater number of the private banks. Supposing, for illustration, that each bank should be 1,000*l.* below its authorized circulation, then the total deficiency of the private banks would be 120,000*l.*, while that of the Joint-stock banks would only be 65,000*l.* Perhaps the joint-stock circulation, being issued at so many branches, may remain longer in circulation, or, perchance, the private bankers may purposely keep more within the prescribed limits in order to avoid the chance of incurring the penalties.

18. We will now classify the banks of issue according to the amounts they are respectively authorized to circulate, and

we will begin with the private banks. These number 167 banks, who are authorized to issue 4,616,609*l.* But the larger portion are for comparatively small amounts. For 27 banks the authorized issue is under 10,000*l.* 52 banks have above 10,000*l.* and under 20,000*l.*; 31 banks are under 30,000*l.*; 20 banks are under 40,000*l.*; and 18 banks are under 50,000*l.* The total authorized circulation of these 148 banks is 3,241,476*l.* Of the remaining 19 banks, which have a circulation each of above 50,000*l.*, only two are above 100,000*l.* It is evident, therefore, that no very large portion of the country circulation is dependent on any one of these banks. It may be also stated that these 167 banks form, with their branches or agencies, 341 banking establishments.*

The Joint-stock banks of issue are 65, which are authorized to issue to the extent of 3,325,857*l.* We have given a total of these banks in Table XII. It may be sufficient here to state that only five of these banks have an authorized circulation above 100,000*l.*; and these five banks have among them 147 branches.† It may also be added that every shareholder is answerable to the whole extent of his property for all the notes issued by the banks,—a circumstance which adds to the security of this portion of the country circulation.

19. We will now compare the circulation of the country banks with the country circulation of the Bank of England. We have been accustomed in former years to think of the Bank of England as a London bank, and to think of the country circulation as having the exclusive possession of the country. This is not now the case. In London the circulation consists exclusively of the notes of the Bank of England. Here there are 58 private and 23 Joint-stock banking establishments that issue nothing else. Out of London, and within a circle of 65 miles, there are 100 private banking establishments that issue about a million of notes; but there are 23 private banking and 73 Joint-stock banking establishments that issue only the notes of the Bank of England. Beyond

* See Table XI.

† Under the word "branches" we include sub-branches and agencies.

65 miles from London there is a circulation of above three millions issued by 241 private banking establishments; and about three millions more issued by 404 Joint-stock banking establishments: but the 11 branches of the Bank of England, all located in this district, have probably a larger circulation than all these banks put together.* And besides this, a large portion of the notes issued by the parent establishment in London circulate in this district, or are found in the tills of its 647 banking establishments. Banks in the same locality as a branch of the Bank of England will keep in their tills some of the notes of the branch, because they can obtain gold for them without sending to London; but in places distant from the branches, the notes kept by bankers are those that have been issued in London.

And here we may notice a peculiarity of the branches of the Bank of England as banks of issue. They act to only a small extent as banks of deposit. In consequence of not allowing interest on deposits, they have not attracted any large amount from the country banks. From the returns laid before Parliament in the year 1848, it appears that the deposits in all the branch banks put together amounted to only about a million. Considering that the branches are established in large towns, and have been in existence for above twenty years, this amount is far from considerable. Hence the notes were chiefly issued by the branch in the way of discount. In London, the Bank of England is a bank of deposit as well as of discount; and when she restricts her discounts, her notes may be withdrawn by a withdrawal of her deposits. But the branches, having comparatively but small deposits, a restriction on their discounts immediately restricts the circulation of their notes. Hence, in seasons of pressure, a restriction of discounts by the Bank of England is felt severely in those places where she has branches; and in the year 1847 few places felt this more severely than Liverpool.†

* See Table VI. We have no returns of the actual circulation of the branches of the Bank of England since the year 1847.

† The circulation of the Liverpool branch was, on the 10th of April, 1847, 1,284,490*l.*; on the 24th of December, 1847, it was 973,360*l.*

It may also happen that the bank has to make advances to Government to pay the dividends; and to do this, it may be necessary to restrict the issues at the branches. Hence it would appear, that that portion of the country circulation which consists of Bank of England notes may be more suddenly contracted than that which consists of notes of the country banks. In agricultural districts, or in places where there is but little demand for discount, the branches do not appear to have been profitable. Those at Exeter, Gloucester, and Norwich, have been withdrawn.

20. We will now compare the country circulation with the total circulation of the Bank of England. By the circulation of the Bank of England, I mean the amount of her notes which are in the hands of the public. In the year 1836, the Bank of England had above three-fifths of the circulation, and the country bankers about two-fifths. The average of the quarter ending June 1836, of the former was 17,184,000*l.*, and the latter 12,202,196*l.* From this time, the country circulation gradually declined, and in 1844, Sir Robert Peel fixed its maximum at 8,648,953*l.*, while that of the Bank of England was at the time 20,228,060*l.* Latterly, the country circulation has usually been about 7,000,000*l.*, while that of the Bank of England has varied from 20,000,000*l.* to 23,000,000*l.** The Bank of England has, therefore, at present three-fourths of the circulation, and the country banks one-fourth. The former, too, has the power of increase, while that of the latter is sure to decline. The Act anticipated such a decline, and provides that if any of the then existing banks should cease to issue, the Bank of England might, upon application, receive from the Lords of the Treasury permission to extend her issues upon securities to two-thirds of the sum withdrawn. Such a decline has taken place. Thirty-seven private banks, whose authorized issue amounted to 536,798*l.*, have ceased to issue; and seven Joint-stock banks, whose authorized issue amounted to 169,589*l.*, have ceased to issue. This makes a total of 706,387*l.*, and consequently the Bank of England may upon application receive power to issue upon securities the addi-

* See Table XIV.

tional sum of 470,925*l.*, making her total issue upon securities 14,470,925*l.* But as all the profit on the increased issue must go to the Government, the bank can have no inducement as a matter of profit to make the application.

This enactment about the profit on the increased issues has led to the question, whether it was the object of Sir Robert Peel that the issue of notes should ultimately be transferred exclusively to the Government. The gradual extinction of the country issues seems to be a step in that direction. When there is only one bank of issue in a country, it always becomes, either directly or indirectly, an instrument of the Government. That he was desirous of only one bank of issue, seems pretty evident; that he wanted all the notes to be issued directly by the Government, is not so clear. The history of the currency, in almost every country, seems to show the evil of such a course. But we need not refer to history. We need only refer to the nation with whom we are at war. At present the Russian silver rouble is worth thirty-seven pence: the paper rouble is worth only tenpence halfpenny.

But the question naturally occurs,—If there be a falling off in the country circulation, why should the deficiency be supplied by the Bank of England? It seems to imply that if the same amount, or nearly the same amount, of notes are issued, it matters not at what place they are issued. But if a bank that has a circulation of 40,000*l.* stops payment in a remote part of England, of what advantage is it to the traders or agriculturalists of that district to know that the Bank of England may issue 30,000*l.* more notes in London? Why should not this increased power be given to the banks of the district? Is it desirable that the circulation of the Bank of England should be increased at the expense of the country circulation? Would it be for the advantage of the Bank of England herself to be the only bank of issue in the country? Would not the Government in that case take the circulation, or at least the profit of the circulation, into its own hands? After the Government had enabled the Bank of England to exterminate her rivals, might not the same Government place her ally under tribute? We all recollect the history of Rome.

It is obvious that an increased issue of notes by the Bank of England in London, will not meet the wants of a district in the country. The following extract from the evidence given before the Committee upon Banks of Issue, refers to the abolition of country notes, and it is applicable to the present case.

"What effects do you imagine would ensue when the measure had once been carried into effect?"—"After the measure had once been carried into effect, the charges which the country bankers would be compelled to make upon that accommodation, which they would still have the power of affording, must be considerably increased."

"Why?"—"Because they would then get no profit upon the notes; at present they can afford to advance money at a low rate of interest when issued in their own notes, because of the profit upon those notes. If the country bankers had to bring the money from a distance and lend it to their customers, they must get a greater interest from their customers than they could get by employing it in London or elsewhere, and hence they must make, either in the form of interest or in the form of commission, heavier charges than they made before."

"The profit on the circulation being thus reduced, there would be a further effect by the limitation of banking establishments; for some of these establishments are so small, and established at such remote places, that they would scarcely pay the expense of conducting them, unless for the profits of the circulation; and yet the withdrawal of those establishments, though connected with no great profit to the bank, would be attended with very considerable loss and inconvenience to the inhabitants of those places, because those banks act as receivers of the surplus capital, and hence they are useful to persons who have money to place in those banks; they act as discounters and granters of loans, and hence they are useful to the productive industry of the country; they are also useful as banks of remittance, for the purpose of making payments from those places elsewhere, and hence they are useful to traders; and those useful purposes, as far as many small banks are concerned, would be altogether annihilated, if those establishments did not issue their own notes."

"In your opinion, the suppression of their circulation would render it necessary for them to charge a higher commission upon their operations, or a higher interest upon the loans which they make?"—"With regard to those small establishments, I do not think any rate of commission could pay the expense; with regard to the larger establishments, you might make up for the deficiency of profit upon the circulation by an increased charge of commission; but with regard to small establishments, in remote places, the business is not sufficient, even with the charge of commission, to pay the expense without the profits of the

circulation: annihilation of the circulation would lead to annihilation of the bank."

21. We will now compare the issuing banks with the non-issuing banks. By a non-issuing bank, I mean a bank that does not issue its own notes. I believe all the non-issuing banks issue exclusively the notes of the Bank of England; they do not reissue even the notes of other banks that they receive from their customers, but forward them immediately for payment. There is no bank of issue in London except the Bank of England. Within 65 miles of London there are 47 private banks of issue, making with their branches or agencies 100 banking establishments; within this circle there is no Joint-stock bank of issue; beyond 65 miles from London there are 120 private banks of issue, making with their branches or agencies 241 banking establishments, and 65 issuing Joint-stock banks, making with their branches and agencies 404 banking establishments; thus the total number of issuing banking establishments in England and Wales is 745.

The non-issuing banking establishments in England and Wales are as follows:—

In London . . .	Private banks	58	
"	Joint-stock establishments . . .	23	
	Total in London . . .	—	81
Within 65 miles .	Private banking establishments .	23	
"	Joint-stock banking establishments	73	
		—	96
Beyond 65 miles .	Private banking establishments . .	92	
"	Joint-stock banking establishments	86	
		—	178
	Total in England and Wales		355
	Add issuing banking establishments .		745
	Total banking establishments .		1,100*

The number of places that have banking establishments within 65 miles is 123, and beyond that distance 443; so that, including London, there are in England and Wales 567 places which unitedly are blessed with the advantages of eleven hundred banking establishments.

* These are exclusive of the Bank of England and her eleven branches.

In the circle within 65 miles of London most of the non-issuing joint-stock banking establishments are branches of a Joint-stock bank, the head office of which is in London. The head office of the other is at Aylesbury.

Beyond the 65 miles the head offices of the non-issuing Joint-stock banks are generally in places where there are branches of the bank of England. And here, for the use of those who are not familiar with the history of our subject, it may be proper to repeat, that, previous to the Act of 1844, the Bank of England had arranged with several Joint-stock and private banks to discount for them at one per cent. less than their usual rate of interest, provided they would issue none but Bank of England notes. The Act of 1844 suppressed these agreements, and at the same time prohibited these banks resuming their issue: but, as a compensation, they were entitled to receive annually one per cent. upon the amount of Bank of England notes they should keep in circulation; a compensation to cease on the 1st August, 1856. A schedule attached to the Act gives the names of these banks. The list contains four Liverpool Joint-stock banks and two private banks. It is, we presume, in consequence of these agreements that we find many of the non-issuing Joint-stock banks are located in places where the Bank of England has branches. The following are the localities of the non-issuing Joint-stock banks:—6 in London, 5 in Liverpool, 3 in Manchester, 3 in Birmingham, 2 in Newcastle-on-Tyne, 1 in Ashton, Bolton, Stockport, Aylesbury, Bury, Plymouth, Swansea, Southampton, Portsmouth, Preston, and Sheffield, making a total of 30 banks. These banks have among them 148 branches, making a total, of head-offices and branches, of 178 banking establishments.

But here I must stop to notice the banks of Liverpool. Liverpool has no fewer than twelve banking establishments. These are, a branch of the Bank of England; four non-issuing private banks; one issuing Joint-stock bank—having branches throughout Wales, but which does not issue notes in Liverpool; five non-issuing Joint-stock banks; and a non-issuing branch of the Manchester and Liverpool District Bank, whose head office

is at Manchester. Out of London there is no place in England which has so many banks as Liverpool, nor is there any place which has so many Joint-stock banks. Beside a branch of the Manchester and Liverpool District Bank, Liverpool has six independent Joint-stock banks—Manchester has but three—Bristol has but two—Leeds has but two—Newcastle-on-Tyne has but two—but Liverpool can boast of six. None of the banks in Liverpool issue notes. We have already stated in part the cause of this. The trade of the Manchester and Liverpool district gave rise to a large number of bills. The bankers found it more to their interest to reissue the bills they had discounted than to issue their notes. Such was the case until the panic of 1825. The Bank of England then put down a branch at Liverpool, and soon afterwards Joint-stock banks were established here. The branch bank offered, as we have stated, to discount for the Joint-stock banks at one per cent. less than the rate charged to other parties, provided the banks would not issue notes nor reissue bills. This arrangement suited both parties; the branch bank got a circulation for its notes, the Joint-stock banks (whose customers always wanted capital) got their bills discounted at a rate which compensated them for the want of issue either of notes or bills, while, at the same time, they obtained a sort of connection with the Bank of England, which at that time was of importance to young banking establishments. The Act of 1844 abolished these bargains between the branch banks and other banks; but at the same time they prohibited these banks from becoming banks of issue. Hence, all the banks of Liverpool have necessarily remained non-issuing banks, and they have shown that banks may become wealthy and prosperous without having the power of issuing notes.

22. We will now compare the country circulation of England with the circulation of Scotland and Ireland.

On looking over the rows of figures denoting the circulation of England, Scotland, and Ireland, we may observe that since the Act of 1844 the laws of the currency as affecting their monthly variations are the same as before. In England, the circulation is high in April and low in August. In Scotland,

it is low in March and high in November. In Ireland, it is high in January and low in September. These have occurred with so much uniformity during the last ten years as to show the operation of fixed causes.

At the same time, the annual amount of the circulation shows the operation of local causes connected with the circumstances of the respective countries. In Ireland, in consequence of the famine, the circulation fell considerably below the authorized amount. The authorized issue formed upon the average of the year ending May 1, 1845, was 6,354,494*l.* In the year 1849 the actual issue was so low as 4,310,283*l.* In Scotland, the authorized issue was 3,087,209*l.*; but in consequence, it is presumed, of the briskness of trade and the sums expended in constructing public works, the actual issue has usually been higher than the authorized amount.

This requires explanation. It may be asked, "How can a bank exceed its authorized issue?" We reply, that not only are the laws of the currency different, in Scotland and in Ireland from what they are in England, but the laws of the State are also different. In England, should any bank exceed its authorized issue it would incur a penalty equal to the amount of the excess; but in Scotland and Ireland a bank may exceed its authorized issue, provided it has in its coffers an amount of gold equal to this excess.

But why this difference should exist is a question not easy to answer. It is said that Bank of England notes are not a legal tender in Scotland or Ireland, and hence they keep sovereigns. A very satisfactory reason as regards Scotland and Ireland. But why should not England have the power of issuing against Bank of England notes? It may be said that the English banks may issue Bank of England notes if they please, and thus reduce their own circulation. Precisely; and the banks of Ireland and Scotland may issue sovereigns if they please, and thus reduce their circulation. Why, then, should not the English banks be permitted to extend their circulation against Bank of England notes, in the same way as the banks of Scotland and of Ireland can extend their circulation against sovereigns? By this means the English bankers

would be relieved from much anxiety in regard to the amounts of their notes in circulation, and rendered less liable to the heavy penalties they may now incur. It is true that in certain seasons the amount of country notes in circulation would be larger, and those of the Bank of England would be less. But then the notes of the Bank of England, instead of being in the hands of the public, would be in the tills of the bankers. This arrangement would place the country bankers of England upon the same footing as those of Scotland and Ireland.

But there is still another difference in the laws of 1844 and 1845, with reference to England, and to Scotland and Ireland. In Ireland and Scotland two banks of issue may unite, and the united bank have the united circulation. In England, if two banks of issue, either of which has more than six partners, should unite, the circulation of one or both of these banks would be lost. Unions of banks in either Ireland or Scotland are not very likely, nor perhaps desirable. The banks are large, have a respectable capital, and enjoy the public confidence. In England many banks are small and have small capitals. Union among them would be highly beneficial. Yet such is the waywardness of legislation, that the Acts of 1844 and 1845 give facilities to unions in Ireland and Scotland, and restrict them in England.

There is another difference between England and Ireland. If any banks cease to issue, the Bank of England may extend her issue to two-thirds of the amount withdrawn. In a similar case, the Bank of Ireland may extend her issues to the whole amount thus withdrawn—Why this difference? We do not know.

23. But the most important circumstance in which the Banks of Scotland and Ireland differ from those of England, is in their power to issue notes under 5*l.* That portion of our currency in England which is under 5*l.* consists of gold and silver coin. And it may, under present circumstances, be worth while to inquire,—Suppose we should have a protracted war, and be compelled to export our gold, either to subsidise foreign powers, or to maintain our fleets and armies abroad, what additional supply of gold could we obtain by means of

issuing 1*l.* notes. I do not think that we can get any certain reply to this question; but there are some inquiries that may assist our reasonings on the subject. First, we may inquire,—When the Bank of England issued small notes, what proportion did the notes under 5*l.* bear to the amount of the whole circulation? That establishment issued such notes from the year 1797 to the year 1821. We find that the highest proportion was in the years 1815 and 1816. On the last day of February in those years the circulation stood thus:—

Year.	Notes under £5.	Notes of £5 and upward.	Total Circulation.
	£	£	£
1815	9,035,250	18,226,400	27,261,650
1816	9,001,400	18,012,220	27,013,620*

Here we find that the notes under 5*l.* were about half the amount of those of 5*l.* and upwards. This was in 1815, nearly forty years ago, and when the notes were issued only in London. Supposing, therefore, in round numbers that the Bank of England circulation is now 20,000,000*l.*, then in the same proportion she might maintain a circulation of 10,000,000*l.* of small notes. But we must remember that during the last forty years, the population, the trade, and the wealth of the nation have vastly increased. And, if pecuniary transactions were conducted in the same way, the notes in circulation must have increased in proportion. But, in consequence of the more general use of bills of exchange, the extension of banking accounts, the more frequent exchanges between country bankers, and the operations of the clearing-house in London, a smaller amount of bank notes is now necessary. All large transactions are now settled not by notes but by bills and cheques and transfers. But these banking facilities which diminish the demand for large notes do not in the same proportion diminish the use of small notes. On the contrary, from the great increase in the labouring population, and the necessary increased extent of retail trade, the demand for small notes to pay wages and to settle small transactions,

* See Table XV.

must, during the last forty years, have greatly increased. Seeing, then, that the demand for large notes has diminished, and the demand for small currency has increased, it seems reasonable to suppose that were the Bank of England now to issue small notes, the amount in circulation would bear a higher proportion to the large notes than was the case forty years ago.

I have already stated that we have no returns of the amount of the country circulation previous to the year 1833; but we have the number of notes stamped of different denominations, and we find that in the years 1820 to 1825 the amount of notes stamped under 5*l.* varied from 37 to 50 per cent., making an average of 44 per cent. of the whole circulation.* This makes the small notes nearly equal in amount to the large ones. But here, again, it is probable that the small notes remained out longer than the large ones. A greater proportion of the large notes were probably in the banker's till, and a larger proportion of the small notes in the hands of the public. It seems probable, therefore, that the amount of small notes in active circulation was usually higher than the amount of large notes. And, if the Bank of England, whose issues were made only in London, and whose circulation was chiefly in London and Lancashire, maintained one-third of her circulation in small notes, it seems likely that the country banks, whose notes were issued in almost every town and village in the country, would maintain a much higher proportion than even one-half.

If we look to the present state of the circulation in Ireland and Scotland, we shall find that the small notes form the larger proportion, and the amount furnishes no confirmation of the doctrine that small notes diminish in wealthy countries. Scotland is a wealthier country than Ireland, yet has a larger proportion of small notes. And the north of Ireland is wealthier than the south, yet the banks of Belfast have a larger proportion of small notes than the banks of the south.

From the former circulation of the Bank of England, the stamps issued to the country bankers, and the present circulation of Scotland and Ireland, we have, then, materials for

* See Table XVI.

forming an opinion as to the amount of small notes that might be maintained in circulation in England; and though we cannot fix the amount with that precision which the science of statistics requires, yet after putting the facts and reasonings together, we seem warranted in drawing the conclusion that the amount would not be less than thirty millions; and, consequently, we have the power, when necessary, of releasing from their present duties thirty millions of sovereigns, and employing them for national purposes elsewhere.

24. It is not the object of this paper to examine any of the enactments of the Act of 1844 that have a reference to the Bank of England. The country circulation should be preserved in its integrity—should be rendered capable of expansion, so as to meet the demands of a more numerous population, extended commerce, higher prices, and increased taxation—its issue should be allowed to be regulated by the demands of trade and agriculture in the respective districts in which the banks are established, and should be rendered as much as possible free from the operation of the foreign exchanges.

We find that, in 1844, when the country circulation had greatly declined, we took the actual circulation of the then existing country notes, and made it a maximum circulation,—an arrangement which necessarily, from the fear of incurring penalties, reduced the amount of the actual circulation below the maximum. We apply this maximum to a circulation that fluctuated very much in different parts of the year. If, then, we keep below the maximum in April, we necessarily fall much lower in August. We divide this maximum among 277 banks, and impose heavy penalties upon every one that shall exceed his portion of the maximum—a circumstance that tends to reduce still farther the actual circulation. No one is forbidden to reduce his issue as low as he pleases; and if he abandons it altogether, only two-thirds can be supplied, and that by permission of the Government; and then only upon the application of a bank whose head-quarters are in London, who is to get nothing by the operation, and whose issues are governed by laws which have been declared by the country

bankers to be inapplicable to the operations of a local currency, and unsuitable to the requirements of domestic industry. This maximum must never be exceeded, while those banks that previously issued Bank of England notes are not allowed to resume their own circulation, and no new bank of issue is allowed to be established. The result of this arrangement has been that an authorized issue in 1844 of 8,648,853*l.*, is now reduced to an authorized issue of 7,942,466*l.*, and that the actual circulation is generally below 7,000,000*l.*, and has been below 6,000,000*l.*; while every banker, in certain seasons of the year, has been compelled to watch the issue of his notes, lest he incur those enormous penalties which attend even the accidental violation of the Act.

In endeavouring to remove these inconveniences, we would be governed by a regard to the spirit of the Act of 1844, and attempt only to correct its practical defects. Among the modifications that may be suggested, perhaps the following may deserve a special consideration :—That the present maximum which applies to an average of four weeks should apply to an average of twelve months ;—that all the banks which had formed agreements with the Bank of England, and whose compensation will cease in 1856, should then be allowed to circulate their own notes to the amount to which they had circulated Bank of England notes ;—that the country circulation should not be less than the amount fixed by the Act of 1844, and that the deficiency of 706,387*l.*, which has since taken place, should be redistributed among the country banks (whether at present issuing or non-issuing) in the district in which the deficiency has taken place ;—that we adopt the enactments of Scotland and Ireland, by allowing the existing banks of issue to extend their issues beyond their fixed amount, provided they have gold, either at the head office or at any of the branches,* equal to the amount of the excess ; and as Bank of England notes are a legal tender in England, and can

* The Act of 1845, in reference to Ireland, is imperfect in this respect. The Provincial Bank of Ireland, for instance, can issue notes against gold held in Dublin, Belfast, Limerick, and Cork, but not against gold held at any of the other branches. There seems to be no reason for this distinction.

be converted into gold upon demand, they might in this instance be placed upon an equality with gold;—that banks of issue not having more than six partners, be permitted to continue their fixed issue in the same locality, even should they increase their partners to a greater number than six; and that this regulation be made retrospective, so as to include all unions of banks of issue with other banks that have taken place since the year 1844; and further, that we adopt the law of Scotland and Ireland by allowing two or more banks of issue, whatever may be the number of their partners, to unite and to retain the united amount of issue of all the united banks. With reference to the issue of notes under 5*l.*, we think that is a question for the consideration of statesmen, and its adoption must depend upon the political circumstances of the country. As long as Australia can supply us with gold, sufficient to meet our foreign requirements, and to maintain our domestic currency, probably we had better remain as we are. At the same time it may be useful to know, that in case of necessity, we have here a magazine from which we may draw a large supply of the sinews of war.

APPENDIX.

Table I.

An Account of the Number of Licenses issued to Country Bankers and the Number of Commissions of Bankruptcy issued against Country Banks in each of the following Years.

Year.	Licenses.	Bankrupts.	Year.	Licenses.	Bankrupts.	Year.	Licenses.	Bankrupts.
1809	702	4	1817	752	3	1825	797	37
1810	782	20	1818	765	3	1826	809	43
1811	789	4	1819	787	13	1827	668	8
1812	825	17	1820	769	4	1828	672	3
1813	922	8	1821	781	10	1829	677	3
1814	940	27	1822	776	9	1830	671	14
1815	916	25	1823	779	9	1831	641	..
1816	831	37	1824	788	10	1832	636	..

Table II.

An Account of Stamp Duties Imposed on Country Notes in the Years 1804, 1808, and 1815.

	1804.		1808.		1815.	
	s.	*d.*	*s.*	*d.*	*s.*	*d.*
Not exceeding £1 1*s.*	0	3	0	4	0	5
Exceeding £1 1*s.* not exceeding £2 2*s.* . .	0	6	0	8	0	10
,, 2 2 ,, 5 5 . .	0	9	1	0	1	3
,, 5 5 ,, 10 0 . .	..		..		1	9
,, 5 5 ,, 20 0 . .	1	0	1	6	..	
,, 10 0 ,, 20 0 . .	..		..		2	0
,, 20 0 ,, 30 0 . .	..		3	0	3	0
,, 30 0 ,, 50 0 . .	..		4	6	5	0
,, 50 0 ,, 100 0 . .	..		7	6	8	6

In the year 1828, after the establishment of branches of the Bank of England, country bankers were allowed, under the administration of the Duke of Wellington, to compound for the stamp duties on their notes and twenty-one-day bills on London, at the rate of seven shillings per cent. per annum—the rate then paid by the Bank of England. This was rendered virtually compulsory by Lord Althorp's Act, passed in 1833. By this arrangement the bankers paid only on the amount of notes in circulation. When the notes were stamped, a portion was always in the banker's till, and paid the same duty as those in the hands of the public.

TABLE III.

An Account of the Number of Country Bank Notes of all Denominations Stamped in each Year from 1820 to 1825, inclusive.

Year.	Not exceeding £1 1s., 5d.	Not exceeding £2 2s., 10d.	Not exceeding £5 5s., 1s. 3d.	Not exceeding £10, 1s. 9d.	Not exceeding £20, 2s.	Not exceeding £30, 3s.	Not exceeding £50, 5s.	Not exceeding £100, 8s. 6d.
1820	1,683,824	22,181	203,673	49,280	7,250	..	71	1,060
1821	2,214,623	20,180	254,839	51,226	10,738	50	417	1,600
1822	1,888,959	11,700	267,213	65,032	13,756	100	206	1,060
1823	1,969,758	25,110	273,184	74,232	9,573	199	292	1,392
1824	2,501,849	21,500	442,112	131,196	22,189	14	528	1,861
1825	3,172,477	39,511	557,946	158,233	46,392	12	381	1,845

TABLE IV.

An Account of the Number of Country Bank Notes of all Denominations Stamped in each Year from 1820 to 1825, inclusive, and the Total Amount which these Stamps might circulate.

Year.	Number.	Total Amount.
		£
1820	1,967,339	3,503,901
1821	2,553,673	4,438,548
1822	2,248,026	4,293,164
1823	2,353,740	4,479,448
1824	3,121,249	6,724,069
1825	3,976,797	8,755,309

This table is designed to assist in forming an estimate of the amount of notes in circulation. It has been conjectured that the amount in circulation in any one year might be equal to the total amount stamped in the three preceding years. But this is a rough mode of calculation, and, besides, we know not how many of these notes might remain in the bankers' tills.

TABLE V.

Quarterly Returns of Country Bank Notes from the Year 1834 to 1841, under Lord Althorp's Act, being the first Return ever made of the Amount of Country Notes in circulation.

Quarters ending			Private Banks.	Joint-Stock Banks.	Total.
			£	£	£
1834.	March	29th	8,733,400	1,458,427	10,191,827
	June	28th	8,875,795	1,642,887	10,518,682
	September	27th	8,370,423	1,783,689	10,154,112
	December	28th	8,537,655	2,122,173	10,659,828
1835.	March	28th	8,231,206	2,188,954	10,420,160
	June	27th	8,455,114	2,484,687	10,939,801
	September	26th	7,912,587	2,508,036	10,420,623
	December	26th	8,334,863	2,799,551	11,134,414
1836.	March	26th	8,353,894	3,094,025	11,447,919
	June	25th	8,614,132	3,588,064	12,202,196
	September	24th	7,764,824	3,969,121	11,733,945
	December	31st	7,753,500	4,258,197	12,011,697
1837.	March	31st	7,275,784	3,755,279	11,031,063
	June	30th	7,187,673	3,684,764	10,872,000
	September	30th	6,701,996	3,440,053	10,142,049
	December	30th	7,043,470	3,826,665	10,870,135
1838.	March	31st	7,005,472	3,921,039	10,926,039
	June	30th	7,383,247	4,362,256	11,745,503
	September	30th	7,083,811	4,281,151	11,364,962
	December	31st	7,599,942	4,625,546	12,225,488
1839.	March	30th	7,642,104	4,617,363	12,259,467
	June	30th	7,610,708	4,665,110	12,275,818
	September	30th	6,917,607	4,167,313	11,084,970
	December	31st	7,251,678	4,170,767	11,422,445
1840.	March	30th	6,893,012	3,940,232	10,833,244
	June	30th	6,973,613	4,138,618	11,112,231
	September	30th	6,350,801	3,630,285	9,981,286
	December	31st	6,575,838	3,798,155	10,373,993
1841.	March	30th	6,322,579	3,644,258	9,966,837
	June	30th	6,444,395	3,807,055	10,251,450

TABLE VI.

The Circulation of the Country Banks and of the Branches of the Bank of England from 1834 to 1847, inclusive; designed to show that the Diminution of the Country Circulation has been attended by an Increase of the Branch Circulation.

Year.	Country Circulation.	Branch Circulation.	Year.	Country Circulation.	Branch Circulation.
	£	£		£	£
1834	10,286,847	3,214,655	1841	9,635,196	4,216,929
1835	10,700,466	3,253,754	1842	8,249,052	4,886,618
1836	11,770,132	3,587,768	1843	7,667,924	5,437,396
1837	10,609,067	3,836,163	1844	8,311,447	6,516,984
1838	11,424,809	3,994,828	1845	7,642,194	7,127,604
1839	11,715,527	4,087,005	1846	7,740,425	6,773,636
1840	10,457,058	4,006,987	1847	7,352,928	6,527.740

Table VII.

The Amount of the Deposits in all the London Joint-Stock Banks on the 30th June, 1854, and the Amount of the Public and Private Deposits in the Bank of England during the Years 1831 and 1853; designed to show that the Number of Persons who keep Banking Accounts in London must have greatly increased.

	Paid-up Capital.	Reserved Fund.	Deposits.
	£	£	£
London and Westminster Bank.	1,000,000	125,307	6,892,470
London Joint-Stock Bank . .	600,000	153,549	5,837,900
Union Bank	422,900	50,000	7,031,477
Commercial Bank	300,000	64,012	1,265,903
Royal British Bank	50,000	12,416	900,390
London and County Bank (including country branches) .	399,625	60,759	3,506,560
	2,772,525	466,043	25,434,700

Bank of England.	Public Deposits.	Private Deposits.
	£	£
Average during the year 1831	3,948,102	5,201,370
Average during the year 1853	5,681,892	12,348,514

Table VIII.

A Statement of the Average Circulation of Country Notes in England and Wales for the Months of April, August, and December, in each Year from 1834 to 1843, both inclusive; designed to show that in these Years the Circulation was at the highest point in April and its lowest in August. The Average Annual Amount is shown in Tables V. and XIV.

Year.	April.	August.	December.
	£	£	£
1834	10,655,743	9,968,039	10,171,117
1835	11,023,301	10,395,039	10,834,826
1836	12,403,634	11,658,494	11,228,594
1837	11,120,363	9,935,701	10,357,651
1838	11,800,591	11,174,749	11,763,397
1839	12,662,312	10,868,785	10,698,390
1840	11,482,057	9,797,017	9,749,102
1841	10,795,870	9,059,553	8,520,386
1842	8,643,089	7,973,718	7,782,734
1843	8,101,454	7,114,788	8,057,674

TABLE IX.

A Statement of the Average Circulation of Country Notes in England and Wales for the Months of April, August, and December, in each Year from 1844 to 1853, both inclusive; designed to show that since the passing of the Act of 1844 the Country Circulation is governed by the same Laws as before, and also that the Private Bank Circulation and the Joint-Stock Bank Circulation are governed by similar Laws.

	1844.	1845.	1846.	1847.	1848.
	£	£	£	£	£
Private	5,295,239	4,680,648	4,736,786	4,722,349	3,853,001
Joint-Stock . . .	3,752,867	3,306,245	3,301,184	3,301,819	2,764,790
Total in April . .	9,048,106	7,986,893	8,037,970	8,024,168	6,617,791
Private	4,338,569	4,358,253	4,407,765	4,179,178	3,482,809
Joint-Stock . . .	3,158,290	3,142,142	3,111,536	2,954,347	2,471,710
Total in August .	7,496,859	7,500,395	7,519,301	7,133,525	5,954,519
Private	4,429,454	4,505,823	4,525,855	3,528,631	3,506,674
Joint-Stock . . .	3,056,862	3,162,742	3,138,321	2,410,376	2,567,700
Total in December	7,486,316	7,668,565	7,664,176	5,939,007	6,074,374

	1849.	1850.	1851.	1852.	1853.
	£	£	£	£	£
Private	3,686,399	3,702,463	3,590,340	3,578,917	3,863,293
Joint-Stock . . .	2,798,230	2,856,075	2,880,410	2,908,732	3,132,388
Total in April . .	6,484,629	6,558,538	6,470,750	6,487,649	6,995,681
Private	3,327,758	3,412,011	3,219,275	3,406,593	3,648,294
Joint-Stock . . .	2,457,526	2,611,505	2,569,918	2,764,442	2,984,629
Total in August .	5,785,284	6,023,516	5,789,193	6,171,035	6,632,923
Private	3,527,246	3,450,811	3,370,976	3,647,713	3,833,753
Joint-Stock . . .	2,601,152	2,685,543	2,678,391	2,914,201	3,056,085
Total in December	6,128,398	6,136,354	6,049,367	6,561,914	6,889,838

TABLE X.

A Comparative View of the Variations in the Circulation in the United Kingdom for every Four Weeks during the Year 1845, as compared with the Four Weeks ending January the 4th, 1845: designed to show the Laws of the Currency in regard to those Banks respectively, and also to show that none of them conformed to the variations in the Amount of Bullion.

Four Weeks ending	England.			Scotland.	Ireland.			
	£ *20,301,000 Bank of England.	£ 4,429,454 Private Banks.	£ 3,056,862 Joint-Stock Banks.	£ 3,159,450 Chartered, Private, and Joint-Stock Banks.	£ 3,917,800 Bank of Ireland.	£ 3,065,751 Private and Joint-Stock Banks.	£ 37,930,317 Total.	£ 14,867,000 Bullion in the Bank of England.
Jan. 4	100·00	100·00	100·00	100·00	100·00	100·00	100·00	100·00
Feb. 1	106·50	103·34	102·65	97·18	101·69	101·63	104·14	99·73
Mar. 1	103·84	99·59	101·08	94·52	101·88	102·12	102·00	103·70
,, 29	101·75	100·46	102·98	93·38	100·74	101·30	100·87	107·67
Apr. 26	108·75	105·67	108·18	94·99	103·03	98·40	105·77	107·13
May 24	108·06	104·44	107·79	106·26	102·85	94·52	105·83	107·54
June 21	104·81	99·31	102·45	110·32	99·10	89·26	102·58	111·30
July 19	108·75	101·10	103·34	105·51	98·54	85·90	104·24	109·48
Aug. 16	111·16	100·00	102·22	104·55	96·40	84·24	104·86	105·72
Sept. 13	108·03	98·40	102·81	105·76	94·76	83·09	102·90	104·31
Oct. 11	107·83	102·93	108·34	108·51	99·74	95·46	105·51	100·81
Nov. 8	113·97	107·02	109·09	113·64	111·67	112·53	112·40	93·87
Dec. 6	108·44	103·16	105·40	120·41	112·44	108·03	108·96	89·84

TABLE XI.

Classification of the Issuing Private Banks: designed to show that a large proportion of these Banks issue individually to only a small amount—an element in the safety of the Circulation.

Number of Banks.	Classification.		Total Authorized Circulation.	Total Actual Circulation, December, 1853.	Average Circulation of each Bank.
		£	£	£	£
27	Under	10,000	179,304	135,685	5,025
52	,,	20,000	742,086	582,694	11,205
31	,,	30,000	781,791	627,673	20,247
20	,,	40,000	702,053	597,483	29,874
18	,,	50,000	836,242	719,705	39,983
7	,,	60,000	382,881	317,510	45,358
2	,,	70,000	137,908	105,485	52,742
4	,,	80,000	304,995	273,080	68,270
4	,,	90,000	336,727	285,017	71,254
2	Above	100,000	212,622	189,167	94,583

* Amounts that are represented by 100·00 for January 4th, 1845.

TABLE XII.

A Classification of the Issuing Joint-Stock Banks: designed to show that a large proportion of those Banks issue individually to only a small amount, and that those Five Banks that issue above £100,000 each are large Banks, as is shown by the number of their Branches.

Number of Banks.	Number of Branches.	Authorized Issue under	Authorized Issue.	Actual Circulation last Week in December, 1853.	Average Authorized Issue of each Bank.
		£	£	£	£
8	4	10,000	56,595	45,364	7,074
10	7	20,000	142,616	123,842	14,261
13	35	30,000	330,597	304,425	25,430
10	16	40,000	353,229	335,672	35,330
3	4	50,000	141,380	135,809	47,127
6	42	60,000	330,339	298,768	55,056
4	30	70,000	252,902	198,371	63,225
2	27	80,000	147,402	143,253	73,701
3	19	90,000	253,951	218,247	84,650
1	8	100,000	94,695	92,859	94,695
5	147	Above 100,000	1,222,151	1,139,760	244,430
65	339*		3,325,857	3,036,370	51,167

TABLE XIII.

The Joint-Stock Banks of Issue, and the Number of their Branches respectively, with their respective authorized Circulation: designed to show that the Average Amount of their Circulation at each Place of Issue is comparatively small.

Number of Banks.	Number of Branches.	Total Branches, including Head Office.	Authorized Issue.	Proportion to each Place of Issue.
			£	£
17	None	17	312,313	18,371
12	1	24	283,168	11,799
7	2	21	302,668	14,413
8	3	32	298,414	9,325
2	4	10	87,359	8,736
3	5	18	91,006	5,056
1	6	7	86,060	12,294
4	8	36	373,475	10,374
2	9	20	169,377	8,469
2	10	22	120,769	5,489
1	11	12	83,535	6,761
1	12	13	122,532	9,426
2	15	32	119,672	3,740
1	19	20	76,162	3,808
1	23	24	356,976	14,874
1	95	96	442,371	4,608
65		404	3,325,857	8,232

* Under the word "Branches," we include Sub-Branches and Agencies.

Table XIV.

Average Amount of the Circulation of the Bank of England, and of the Private and Joint-Stock Banks, and of the Bullion in the Bank of England during the Years 1842 to 1853, both inclusive, and also to the end of July, 1854: designed to exhibit a comparison between them. (For the Amount of the Circulation in previous Years see Table V.)

Year.	Bank of England.	Private Banks.	Joint-Stock Banks.	Bullion.
	£	£	£	£
1842	18,440,153	5,297,499	3,008,295	8,101,307
1843	19,522,538	4,689,870	2,956,896	11,700,538
1844	21,215,000	4,786,881	3,388,509	15,333,923
1845	21,736,000	4,516,058	3,189,045	15,333,769
1846	21,248,230	4,554,549	3,170,828	14,680,461
1847	20,112,769	4,544,035	3,095,483	10,615,230
1848	19,071,857	3,658,867	2,604,422	13,765,642
1849	19,487,538	3,566,833	2,632,367	15,161,230
1850	20,624,615	3,584,236	2,739,212	16,597,153
1851	20,637,615	3,463,390	2,746,782	14,563,538
1852	23,159,000	3,556,836	2,862,096	20,586,076
1853	24,033,153	3,803,278	3,051,889	17,548,076
1854	22,464,857	3,836,231	3,065,502	14,474,285

Table XV.

The Total Circulation of the Bank of England, and the Circulation of Notes under £5, on the last day of February, in the Years 1811 to 1821 inclusive, and the Proportion per Cent. between them: designed to assist in forming an opinion as to the Amount of Notes under £5, which the Bank of England might be able to keep in Circulation.

Year.	Total Circulation.	Circulation of Notes under £5.	Proportion per Cent.
	£	£	
1811	23,360,220	7,114,090	30·45
1812	23,408,320	7,457,030	31·85
1813	23,210,930	7,713,610	33·23
1814	24,801,080	8,345,540	33·65
1815	27,261,650	9,035,250	33·14
1816	27,013,620	9,001,400	33·32
1817	27,397,900	8,136,270	29·70
1818	27,770,970	7,400,680	26·65
1819	25,126,700	7,354,230	29·27
1820	23,484,110	6,689,130	28·49
1821	23,884,920	6,437,560	26·95

TABLE XVI.

The Total Amount of Country Bank Notes, and the Amount of those under £5 stamped in each Year, from 1820 to 1825 inclusive, and the Proportion per Cent. between them: designed to assist in forming an opinion as to the Amount of Notes under £5 which the Country Banks might be able to keep in Circulation.

Year.	Total Amount Stamped.	Amount Stamped under £5.	Proportion per Cent.
	£	£	
1820	3,503,901	1,728,186	49·32
1821	4,438,548	2,254,983	50·80
1822	4,293,164	1,912,359	44·53
1823	4,479,448	2,019,978	45·09
1824	6,724,069	2,544,849	37·85
1825	8,755,309	3,251,499	37·13

TABLE XVII.

Average Circulation and Coin held by the Irish Banks during the Four Weeks ending Saturday, the 24th day of December, 1853: designed to show the large Proportion of Notes below £5 in Circulation, and also that the Banks in the North of Ireland (the Belfast, Northern, and Ulster Banks) issue a larger Proportion of small Notes than those in the South (the National Bank of Ireland, Carrick, and Clonmel).

IRISH BANKS.

Name of Bank.	Authorized Circulation.	Average Circulation during Four Weeks ending as above.			Average Amount of Gold and Silver Coin held during Four Weeks ending as above.
		£5 and upwards.	Under £5.	Total.	
	£	£	£	£	£
1. Bank of Ireland .	3,738,428	1,843,725	1,252,175	3,095,900	771,257
2. Provincial Bank of Ireland . .	927,667	336,207	639,211	975,418	233,719
3. Belfast Bank .	281,611	58,311	444,936	503,247	285,428
4. Northern Bank .	243,440	35,838	244,090	279,929	63,527
5. Ulster Bank . .	311,079	53,946	443,827	497,773	204,923
6. National Bank of Ireland . . .	761,757	384,771	636,908	1,021,679	393,220
7. Carrick-on-Suir National Bank .	24,084	11,085	13,428	24,513	5,555
8. Clonmel National Bank . . .	66,428	25,139	29,628	54,768	10,591
Totals . .	6,354,494	2,749,022	3,704,203	6,453,227	1,968,220
Totals of—					
3 Northern Banks, Nos. 3, 4, & 5 .	836,130	148,095	1,132,853	1,280,949	553,878
3 Southern Banks, Nos. 6, 7, & 8 .	852,269	420,995	679,964	1,100,960	409,366

TABLE XVIII.

Average Circulation and Coin held by the Scotch Banks during the Four Weeks ending Saturday, the 24th day of December, 1853: designed to show the large Proportion of Notes under £5, and also that the Proportion is higher in Scotland than in Ireland.

Name of Bank.	Authorized Circulation.	Average Circulation during Four Weeks ending as above.			Average Amount of Gold and Silver Coin held during Four Weeks ending as above.
		£5 and upwards.	Under £5.	Total.	
	£	£	£	£	£
Bank of Scotland .	300,485	136,834	279,730	416,564	171,661
Royal Bank of Scotland	183,000	71,531	127,175	198,706	51,477
British Linen Company	438,024	188,707	335,431	524,138	146,791
Commercial Bank of Scotland . . .	374,880	169,908	356,839	526,747	239,730
National Bank of Scotland . . .	297,024	111,602	240,404	352,007	107,624
Union Bank of Scotland and Banking Company in Aberdeen . .	415,690	168,840	359,147	527,987	162,267
Edinburgh & Glasgow Bank . .	136,657	64,772	103,511	168,283	53,798
Aberdeen Town and County Bank .	70,133	35,529	75,405	110,934	46,881
North Scotland Banking Company	154,319	87,096	116,372	203,468	60,387
Dundee Banking Company . .	33,451	9,316	28,631	37,947	6,688
Eastern Bank of Scotland . . .	33,636	16,557	27,054	43,611	11,245
Western Bank of Scotland . . .	337,938	125,996	361,320	487,316	234,389
Clydesdale Banking Company . .	104,028	42,497	105,511	148,009	73,501
City of Glasgow Bank	72,921	69,008	99,289	168,297	105,901
Caledonian Banking Company .	53,434	24,861	53,922	78,783	34,805
Perth Banking Company . .	38,656	18,657	35,129	53,786	23,906
Central Bank of Scotland . . .	42,933	23,417	42,786	66,204	28,119
Totals . .	3,087,209	1,365,128	2,747,656	4,112,787	1,559,170

THE LAWS OF THE CURRENCY IN SCOTLAND.

[This Paper was read before the Statistical Section of the British Association at Glasgow, 15th September, 1855, therefore the statements refer only to that period.]

By the currency of Scotland we mean the notes issued by the banks in Scotland. And by the laws of the currency we mean the uniform operations of those circumstances which regulate the amount of notes kept in circulation.*

In this paper we shall notice—First, the constitution of the banks by whom the notes are issued. Secondly, the banking operations by which the notes are put into circulation. Thirdly, the laws which regulate the fluctuations in the amounts. Fourthly, the effects of the Act passed in 1845 for regulating the currency in Scotland.

I.—*The Constitution of the Banks in Scotland that issue Notes.*

With the exception of one private bank in Edinburgh, all the banks in Scotland are banks of issue. In the year 1826, the number of issuing banks in Scotland was thirty-two. Now they are only seventeen, although twelve new banks of issue have since been formed.

Number of issuing banks in 1826 (see Appendix No. I.) .	32
Issuing banks since formed (see Appendix No. II.) . . .	12
	44
Failed, wound up, or merged in other banks	27
Present number of banks (see Appendix No. III.) . . .	17

* When we have ascertained any conformity in the recurrence of certain events we call that Uniformity and Law. Thus those uniformities that have been found to occur in regard to deaths at various ages are called "The *Laws* of Mortality."—*Logic for the Million.*

1. *These Banks are all Joint-Stock Banks.*—By a joint-stock bank we mean that there is a certain amount of paid-up capital; that this capital is contributed by a number of partners or shareholders, in proportion to the shares they hold; that in case any partner retires, or dies, his capital is not withdrawn, but merely transferred to another party; and that all these partners or shareholders are answerable to the whole extent of their property, for all the debts of the bank. (See Appendix No. IV.)

2. *These Banks have numerous Partners.*—By the returns of 1826, it appears that many of the banks had only few partners, although styled joint-stock banks. But a joint-stock bank with few partners has but little better chance than a private bank of obtaining immortality. Most of these banks have ceased to exist. Of the present banks there is only one which has fewer than a hundred partners. (See Appendix No. III.) As every partner is answerable for all the debts of the bank to the whole extent of his property, the greater the number of partners, *ceteris paribus*, the greater the security to the public.

Where the banks are few, the bank is conducted by the principals. Where the partners are many, the bank is conducted by a board of directors, and a chief officer, usually styled a manager.

Among the objections to joint-stock banks it has been said that directors and managers cannot possibly feel the same interest in their success as the private bankers.* But it may be questioned whether banking is not a business which is usually more prudently conducted by agents than by principals. A man should govern a bank as he would play a game of chess. He should observe with incessant vigilance, but with the most frigid coolness, every opportunity of obtaining success; but he should always move according to the rules of the game, and whether he win or lose retain his equanimity. Extreme anxiety about success, fondness for speculation, private friendships, the desire of amassing wealth, or the dread of losing caste, are disturbing elements in a banker's

* See the evidence of a private banker before the Bank Charter Committee of 1832.

mind, and have been the causes of many of the follies, the crimes, and the bankruptcies of the private bankers.

Even in the administration of joint-stock banks, it has been supposed that when the directors have a large personal interest in the bank which they govern, there is a danger that their feelings as shareholders will sometimes bias their judgment as directors. In the Bank of England no director holds a larger amount of stock than his qualification.

3. *These Banks have large paid-up Capitals.*—Of all the joint-stock banks in England, there is only one (the London and Westminster Bank) whose paid-up capital amounts to 1,000,000*l.* sterling. But among the seventeen banks of Scotland, there are six which have a paid-up capital of 1,000,000*l.*; one of 1,500,000*l.*; and one of 2,000,000*l.* The total amount of paid-up capital is 11,701,997*l.*, making an average of 688,352*l.* (See Appendix No. III.)

Our legislators are desirous that banks in England should have large capitals, and hence they have enacted that no new joint-stock banks shall be established with a less capital than 50,000*l.* But a bank with a large capital must have large transactions, and a large field for its operations. And if it be a sound principle that banks should have large paid-up capitals (as we think it is), then restrictions upon the number of partners, restrictions upon the circulation, restrictions upon branches, and restrictions upon the union of banks, are enactments pre-eminent in absurdity.

On the other hand, our English shareholders exclaim, "What do our directors want with a large capital? Is not all our property liable? Is not that security enough?" And they fondly imagine they might take back half their capital, and yet have the same sum as before distributed among them in the form of dividends. How delightful this! It reminds us of the man who ripped up the goose that laid the golden eggs. Whether that man were a shareholder in an English joint-stock bank, we do not know; but he was a man who was dissatisfied with his golden dividends. He would have possession of his capital, and by grasping at the capital he lost the dividends.

We think that the paid-up capital of a bank should bear some proportion to the amount of its liabilities. A bank having large transactions and a small capital, may incur losses exceeding the amount of its capital. The total amount of paid-up capital in all the banks of Scotland, we have stated to be 11,701,997*l.*: the amount of notes they are authorized to issue is 3,087,209*l.* The amount of their deposits was estimated by Mr. Blair, in the year 1841,* at 27,000,000*l.* So their paid-up capital is above one-third the amount of their liabilities. This, as far as we know, is much higher than the proportion that obtains in our English banks. Of the paid-up capital of the private banks we know nothing, and the country joint-stock banks rarely publish the amount of their deposits. But we know the amount of the paid-up capitals, and of the deposits of the joint-stock banks of London. (See Appendix No. V.) And here we find that the paid-up capital of the London and Westminster Bank is only one-eighth of its liabilities; that of the London Joint-Stock Bank less than one-tenth; of the Union Bank of London about one-fourteenth; of the Commercial about one-fourth; of the London and County about one-ninth.

The mania of shareholders in English banks in favour of small capitals, small surplus funds, and high *pro ratâ* dividends, and the readiness of boards of directors to pander, in this respect, to the morbid cravings of the shareholders can be regarded by patriots and statesmen in no other view than as a national calamity. (See Appendix No. VI.)

It is undoubtedly by means of their large paid-up capitals that the banks of Scotland have obtained so great a share of public confidence. We recommend the example to our English banks. The unlimited liability of the shareholders does not supersede the expediency of large capitals. It is all very pretty, in times of prosperity, for the shareholders to exclaim, "Is not all our property answerable for the debts of the bank?" But no shareholder is willing to have his property so applied. And in times of adversity, when it seems pro-

* See Evidence before the Committee on Banks of Issue.

bable that some portion of this vaunted property will be called upon for this purpose, away go the wealthy shareholders, they sell out as fast as they can, or transfer their shares to some poor relation; and the sum required to pay the creditors of the bank can be obtained only from the remaining shareholders, by a legal process which is always very slow, and not always very sure.

4. *These Banks are few in number* (see Appendix No. III.) —And this too in a country where, until 1845, there was unlimited freedom of banking. How startling this fact must be to those who have told us that if there were no restrictions upon the formation of joint-stock banks, they would be as numerous as gin-palaces. But history tells us that where banking is free the banks are few, and when banks are numerous it is the effect of legislative enactments. In England the banks are numerous, because in the renewal of the charter of the Bank of England, in 1708, it was enacted, that no other bank having more than six partners should have the privilege of issuing notes. And as banks having more than six partners could not be formed, a great number of banks, each not having more than six partners, rose into existence, as they were required by the increasing trade and wealth of the country. In the United States of America there are numerous banks. For no bank can be established without a charter; and as the state legislatures have thought proper to grant a large number of charters, of course there are numerous banks. We may give another illustration. In London, any number of persons not exceeding six may establish a bank of deposit. Yet for many years past the number of London banks has not increased. In the year 1810, the number of clearing bankers was forty-six. At present the number of private banks who attend the clearing-house is only twenty-five. In Scotland banking is free, and the banks are few. The doctrine that freedom in banking leads to an excessive multiplication of banks, is a theory wholly unsupported by the testimony of experience.

5. *These Banks have many Branches* (see Appendix No. III.) —It is undeniably true, that it is better for a country to

have few banks with many branches, than a great number of small independent banks. One advantage is, that there is greater security to the currency. Where there are numerous small banks, there will be occasional, and probably numerous failures. And if their capitals are small, they will sometimes lose more than their capital, and then the holders of their notes may suffer loss. But the various branches of a bank are interlaced together, and if one branch sustains loss, the profits of the other branches are a compensation, and possibly in a few years the less fortunate branch may recover its losses. The whole capital of the bank is a security to the public for the notes issued at any of the branches. Hence local losses do not affect the public. The shareholders, perchance, get a less dividend, but the bank goes on as before.

The banks of Scotland have large paid-up capitals and numerous branches. These should always go together. A bank that has numerous branches should have a large paid-up capital. A bank that has a large paid-up capital should be established in a large town or city, and extend its branches into districts too poor to form strong banking institutions for themselves. This would give the less wealthy towns and districts the conveniences and security of the large capital of the parent bank, and prevent the formation of small and feeble banks in those localities.

We may observe that the head-quarters of all the banks of Scotland are in large towns or metropolitan cities. Of the seventeen banks, six are in Edinburgh, four in Glasgow, two in Perth, two in Dundee, two in Aberdeen, and one in Inverness. In looking at Appendix No. I., we may observe that Scotland has not been successful in preserving small local banks. Those who since 1826 have failed, have wound up, or have found it convenient to merge in larger establishments, are by no means few. Private banking, too, has been tried and found wanting. Of the four private banks that existed in Edinburgh in the year 1826, only one remains, and that is now the only one in Scotland. The management of the currency in Scotland has been immeasurably superior to that of England—an advantage for which Scotland is indebted to

the non-interference of the legislature. But it is a mistake to suppose that, in banking, Scotland has escaped the casualties that belong to the craft. The large profits made during the last war are supposed to have arisen, not so much from the operations of banking, as from investments in the English funds. And in the commercial and manufacturing places, such as Aberdeen, Dundee, Glasgow, Paisley, and Greenock, the losses sustained by the banks have occasionally been very severe, and if known, they would probably, in proportion to the amount of transactions, bear a respectable comparison with the losses sustained in similar places by English banks. But the Scotch banks have never been in the habit of publishing their accounts, and the public do not require it. The shareholders are satisfied that the directors and managers know how to govern the banks better than themselves. But in all the vicissitudes of banking, nothing has ever occurred to shake the confidence of Scotland in her banking institutions. Mr. Thomas Kinnear observed that it required more skill to manage a bank in England than in Scotland, as the English banker had always to be on his guard against a withdrawal of public confidence, a danger from which the banks of Scotland are altogether exempt.

II.—*The Banking Operations by which these Notes are placed in Circulation.*

1. *Current Accounts.*—These are sometimes called "Running Accounts," and by the Bank of England, "Drawing Accounts."

The party having the account pays in to his credit bills, gold, or notes, and draws out the sums for which he has occasion. And as all the banker's payments are made in his own notes, the effects are, that all the previously existing currency is displaced, and the banker's notes are substituted in its stead.

This effect is produced and maintained more rapidly and effectively by the allowance of interest on the daily balance. When we say the banks of Scotland allow interest on current accounts, we do not mean that they allow interest, as is the

case with some banks in London, merely on the lowest sum that may be to the credit of the account on any one day during the month, or during six months; they allow interest from day to day on the full amount of the daily balance. Hence it is the practice for all parties having such accounts to pay into the banks, every afternoon, all the cash they have in their possession, and to draw out on the following morning the notes for which they may have occasion. By this means they get a day's interest on the sums they have placed to their credit.

This practice is facilitated by the exemption from any charge for commission. The country banks in England charge a commission upon the amount of the debit side of a current account. Hence it is the advantage of a party who receives bank-notes, to pay them away to other parties, without passing them through his banking account. In Scotland no such charge is made, and therefore the notes received are not again paid away. Indeed, a party would not be thought to use his own banker well, who should pay away the notes of another bank. He is expected to pay in such notes to his credit, and to make all his payments in the notes of the bank with which he keeps his account.

2. *Deposit Receipts.*—These deposits are usually small sums placed in the bank by parties who have generally accumulated them by their industry, and which are placed in the bank for safety and for interest. Their effect upon the currency is the same as that produced by current accounts. But the transactions are for smaller amounts, and the operations are far less frequent. Among the advantages of a sound system of banking, we ought not to overlook its influence on the humbler classes of society. Scotland has always bestowed on such classes the good effects of the savings' banks. The poor had always a place of safety in which they could deposit the fruits of their labour. And thus habits of industry, of prudence, and of forethought, were produced and maintained.

In England the poor had no place in which they could deposit their earnings, previous to the establishment of savings' banks; and besides this, they often suffered from the failure of the private banks.

The most weighty argument advanced, in the year 1826, for the abolition of small notes was, that they circulated chiefly among the poorer classes; and the banks failed so frequently, as to produce great misery among the inhabitants of cottages. As the legislature despaired of improving the banks, they had recourse to the expedient of abolishing the notes.

If we wish to improve the character and condition of the poor, one of the most effective instruments we can employ, is a sound system of banking. And when we consider not only the numerous classes that have been reduced from wealth to poverty, but also the evil effects produced, and the good effects prevented, on the labouring population, by the system of private banking, we shall perhaps be induced to believe that the clause in the Bank Charter of 1708, which prohibited the formation of banking companies having more than six partners, has been more injurious to the country than any war, famine, or pestilence, with which the land has ever been scourged.

3. *Cash Credits.*—A Banker is a dealer in money; he borrows of one party, and lends to another; he thus draws into active operation those small sums, which were previously unproductive in the hands of private individuals, and furnishes accommodation to those who have need of additional capital to carry on their operations. These advances are usually made in commercial towns by the discounting of bills. But in agricultural districts no bills exist. Hence the bankers, in the country parts of England, make advances to farmers and landlords upon the security of deeds. The banks of Scotland adopted a different mode, and invented cash credits. At the same time, they granted these credits only to such parties as had the means of circulating bank-notes; and as small credits could circulate more notes in proportion to their amount, than large ones, the credits were usually confined to from 200*l.* to 500*l.*

A cash credit is, in fact, the same thing as an overdrawn current account, except that in a current account the party overdraws on his own individual security, and in the cash credits he finds two securities, who are responsible for him. Another difference is, that he cannot overdraw his current account without permission each time from his banker, whereas

the overdrawing of a cash credit account is a regular matter of business—it is, in fact, the very thing for which the cash credit has been granted. As in a current account, the party having a cash credit may pay in or draw out money, within the limits of the credit, as often as he pleases, and is charged interest from day to day on the sum overdrawn. It is obvious that the effect on the currency is the same in both cases. In the current account, the party pays in money every afternoon, in order to get as much interest as he can from the bank; and in the cash credit, he does the same, in order to pay as little interest as he can to the bank. The result is, that all superfluous notes are daily withdrawn from circulation.

4. *The System of Exchanges.*—All the banks in Scotland exchange their notes twice a week in Edinburgh, and pay the balances by exchequer bills. The Scotch bankers are loud in their praises of the system of exchanges. And justly so. But they are in error in supposing that nothing like it exists in England. Our country banks make their exchanges with each other at stated times, and pay the difference by a draft on London. These operations have the same effect as the exchanges in Scotland, of withdrawing from circulation all the superfluous notes—that is to say, all the notes that come into the hands of the bankers.

But the system in Scotland is more extended and more uniform. Most of the banks have their head-offices in Edinburgh, or Glasgow, with numerous branches all over Scotland, and hence they are better able to make arrangements for a uniform system of conducting their business, both with reference to the public, and with reference to one another. But in England, our sagacious legislators have thought proper to prohibit our joint-stock banks of issue carrying on business in London, or within sixty-five miles. Hence the head offices of these banks are widely distant from each other, and have no business arrangements for their general guidance. In England, a joint-stock bank is too often an isolated body, bearing but little good-will towards the other joint-stock banks established in the same place, and having no regard for the principles of joint-stock banking

beyond what refers to its own individual interest. By far the majority of the country joint-stock banks employ private banks as their London agents.* Thus, while in their own locality, they claim public confidence upon the ground of being joint-stock banks, yet when they have to choose a banker for themselves, they place their funds in the hands of a private bank. It is this want of union and organization among the banks, coupled with the small amount of their paid-up capital, and the appointment in some cases of incompetent persons to be directors and managers, which has retarded the progress of joint-stock banking in England.

It is easy to perceive how these different arrangements dovetail into one another. The operations on the current and cash credit accounts bring out into circulation all the notes which the wants of the community require; while the allowing of interest, and the general prevalence of saving habits, bring back to the banks all the notes which are not in active operation; and by the system of exchanges, all the various notes that may be lodged in any one bank are immediately presented for payment to the respective banks by whom they were issued. For this beautiful system, Scotland is indebted to the sagacity of her bankers. And we shall now show how admirably it works in all the various changes that take place in her monetary transactions.

III.—*The Laws of the Circulation of Bank Notes in Scotland.*

Annual variation.—One law of the circulation is, that the amount *varies from year to year;* it is not every year of the same average amount (see Appendix No. VII. and No. VIII.)

In the year 1843, the average circulation was 2,741,841*l.*; in 1854, it was 3,789,214*l.* The fact is indisputable. The

* The total number of joint-stock banks and branch banks in England, Scotland, and Ireland, who employ private bankers as their London agents is nine hundred and sixty-four (say 964), while the number who employ joint-stock banks as their London agents is only two hundred and fifty-one (say 251). On the other hand, the number of private banks and branches who employ private bankers as their London agents is 447, while the number who employ joint-stock banks as their London agents is only 24.

causes of this fact will admit of difference of opinion. The amount of money required in any country will depend upon the number and amount of pecuniary transactions; and these must depend upon the quantity of commodities sold, and the payments that are made. Hence generally we may state, that the amount of the circulation will be regulated by the state of commerce and agriculture.

Looking over the return from 1834 to 1855, we may trace a marked correspondence between the circulation and seasons of commercial excitement and depression in Great Britain. At the end of 1836, occurred a commercial panic; the previous excitement had increased the circulation to an average of 3,217,887*l.*, but after the panic, the average, in 1837, was only 3,074,616*l.* At the end of 1839, occurred another panic. The previous excitement had carried the average of the circulation of 1839 to 3,246,980*l.*; but it declined during the first months of 1840, though it recovered by the end of the year. In 1842, and 1843, the circulation was low. The country circulation of England was also low. When, in 1844, Sir Robert Peel wished to fix upon the average circulation of the previous two years, as the maximum of the future circulation, both the private and joint-stock banks of England resisted this on the grounds that those two years were years of depression, and a greater amount of notes would be required when trade should revive. In 1844, trade did revive; and in addition to this, the railway speculations came on in the years 1845 and 1846. The effect is seen in the increase of the average circulation of Scotland, in 1845, to 3,307,132*l.*; in 1846, to 3,439,564*l.*; and in 1847, to 3,516,450*l.* But in October, 1847, came another panic—trade was paralysed; and in 1848 and 1849 the circulation fell to 3,162,692*l.*, and 3,134,073*l.* But in 1850 trade was again stimulated by the importations of gold from Australia, and the circulation rose. The average amounts in the years 1850 to 1854 were as follows:—

	£		£
1850 . . .	3,225,214	1853 . . .	3,789,214
1851 . . .	3,242,922	1854 . . .	4,055,216
1852 . . .	3,403,949		

We consider it then a law of the currency, in Scotland, that the amount will vary annually, according to the excitements and the depressions in trade.

Variations during the same Year.—A second law of the currency in Scotland is, that the amount during each year is not uniform throughout the year, but varies from month to month (see Appendix Nos. VII. and VIII.)* This is obvious to inspection. But if we farther compare the different years with one another, we shall discover a farther law. The lowest amount of the circulation is in March, and the highest in November. The advance, however, between these two points is not uniform; for the highest of the intervening months is May or June,* after which there is a slight reaction, but it increases again until November, and falls off in December. These are statistical facts, and the uniform occurrence during successive years shows the existence of a law. The causes of these facts cannot so easily be deduced from the tables, but must be gathered from testimony. From the evidence of the Scotch bankers, before the Parliamentary Committee of 1826, we learn that the cause of the great increase of notes in May and November is, that these are the seasons for making payments. The interest due on mortgages is then settled; annuities are then paid; the country people usually take their interest on their deposit receipts; and the servants receive their wages. There are frequently large sums transferred by way of mortgage. It is the custom of Scotland to settle all transactions, large as well as small, by bank notes—not by cheques on bankers as in London. It will be observed, by Appendix No. VII., that these monthly variations occur uniformly every year; while the amounts of the circulation in the corresponding month of different years undergo comparatively but little change. The Law of 1845 has made no change in this respect (see Appendix No. VIII.)

Variations in amount of Notes for large and small Sums.—

* Since 1844 the returns have been made, not every month, but every *four* weeks. Hence we should notice the dates of the returns: for example—a return for the four weeks ending December 1st, 1849, is properly the return for November.

A third law of the circulation in Scotland is, that the amount of notes in circulation under 5*l.* is greater than the amount of notes of 5*l.* and upwards. (See Appendix No. IX.)

The Bank of Scotland first issued notes of 1*l.* in the year 1704; and from that time to the present, they have never been prohibited. In the year 1765, a practice prevailed in Scotland of issuing notes of a less sum than 1*l.*, and which were made payable to the bearer on demand, or payable at the option of the issuer at the end of six months, with legal interest from the demand to that time. By an Act passed in that year, all notes under 1*l.*, and all notes having this optional clause, were prohibited.

In the "Gentleman's Magazine," for 1765, there is a description of one of these notes; it is for one shilling Scots, which is equal to one penny English. It is drawn after the following form :—

Sh 1 Scots. No. Edinburgh.

The *Mason Borrowmen Company* oblige themselves to pay to Solomon Hod, or bearer, *One Shilling Scots* on demand, or at the option of the Directors, one shilling Scots, with the legal interest at the end of *six months* after the day of demand; and for ascertaining the demand, and the option of the *Directors*, the accountant with one of the tellers of the company are hereby ordered to sign, the day of presenting this *Note*, on the back of the same.

By Order of the Court of Directors. W. J., *Accountant.* G. O., *Teller.*

After the panic of 1825, it was proposed by the Government to abolish all notes under 5*l.* in Scotland as well as in England; Committees of both Houses of Parliament were appointed to report upon the subject. The evidence laid before these Committees, and probably also the letters of Sir Walter Scott, published under the name of "Malachi Malagrowther," had the effect of causing the measure to be postponed. The following is an extract from the evidence of Mr. Robert Paul, the secretary of the Commercial Bank of Scotland, as to the effect of the abolition of small notes :—

"We should diminish the number of our branches, because we should be involved in an expense, in the transmission of gold, which the profits arising out of our branches could never compensate.

"We should withdraw our cash accounts, because they could no longer accomplish the end for which they are granted—which was, the maintaining our circulation, especially of our small notes.

"We should diminish the interest of our deposit accounts, because we should then be required to keep a very large amount of dead stock of gold in our coffers, to meet the constant variations that would arise, and to keep it wholly unproductive."

The greater amount of small notes arises from the greater number of small transactions. This is no proof of the poverty of Scotland, but, on the contrary, of the general diffusion of wealth.

We observed last year at Liverpool:*— "If we look to the present state of the circulation in Ireland and Scotland, we shall find that the small notes form the larger proportion, and the amount furnishes no confirmation of the doctrine, that small notes diminish in wealthy countries. Scotland is a wealthier country than Ireland, yet has a larger proportion of small notes. And the north of Ireland is wealthier than the south, yet the banks of Belfast have a larger proportion of small notes than the banks of the south."

When large masses of the population are in extreme poverty, a one-pound note is a luxury they never reach. But where a large small-note circulation exists in a country, and is maintained from year to year, it shows that the main body of the people are in that comfortable condition which requires the use of bank notes.

A fourth law of the circulation in Scotland is, that in the comparatively poor and thinly-peopled districts the proportion of small notes circulated is greater than in districts more wealthy and more densely peopled. (See Appendix No. X.)

Our evidence on this point is not so ample as it would be if every district in Scotland had a local bank. The banks of Edinburgh and Glasgow have branches opened in various districts; and as we have no returns of the circulation of each branch, we cannot tell the proportion of large and small notes that circulate in any one district. Out of Edinburgh

* Paper on the Laws of the Currency in England, read before the Statistical Section of the British Association.—*Statistical Journal*, vol. xvii., p. 289.

and Glasgow there are local banks at Perth, Dundee, Aberdeen, and Inverness. And we find that these local banks circulate a larger amount of small notes, in proportion to the whole circulation, than is circulated by the other banks. We also find that the Western Bank of Scotland, which has a great number of branches established in thinly-peopled districts, circulates a large proportion of small notes. Generally speaking, the banks that have the greatest number of branches circulate the largest proportion of small notes. And this establishes our law; for where the branches are numerous, some, if not many of them, must be established in the rural districts.

The following extracts, from a bank agent in Inverary, which was laid before the Parliamentary Committee of the year 1826, bears evidence to the same law:—

"Our produce chiefly consists of cattle and sheep, grain, wood, kelp, and the production of the fisheries. Cattle are brought to the country markets by the breeders, chiefly small farmers, every man attending his own, and having generally from one to three young animals for sale. There they are met by the dealers and graziers, who purchase such of the beasts as suit them; and it is seldom that a single animal at the age of one or two years, being the ages at which they sell them to the dealers and graziers, comes to the price of 5*l.*, the price is more frequently from 2*l.* to 4*l.* Of these, a dealer often purchases two or three hundred in single beasts; so that he has more than 1*l.* and less than 5*l.* to pay to each of as many sellers; but he has no notes under 5*l.*, and the sellers are not able to return balance in any coin. This will occur to many dealers at every market; and how is the difficulty to be removed?

"It is the same in the case of grain, of which bear, or barley, is what is chiefly sold by small farmers to the distilleries. In settling for some bolls bought in small quantities of two or three bolls, 5*l.* notes will be found most inconvenient; and the purchasers and manufacturers of wood and bark, and of sea-weed for kelp, who require many hands, and pay off their workers generally once in the month, none of whom will draw so small a sum as 1*l.*, nor so large a sum as 5*l.*, will experience the same difficulty.

"The herring fishery on our coasts employs several thousand men, and is of very great importance. Instances have occurred of herrings being taken in Lochfine alone to the value of 40,000*l.* in one season; and a thousand boats are generally employed there in the fishing. The fishermen, every morning, sell their fish to the curers on shore, receive their money, and set out in quest for more. The value of each boat's

fishing for a night sometimes exceeds 5*l.*, but generally is under it; and there are in this fishing station alone a thousand boats to be paid off every morning, of whom most probably two-thirds have to receive less than 5*l.* each.

"In transmitting money from one part of the country to another, the same difficulty will often present itself. Suppose a person in the Western Isles has to pay 19*l.* to one on the Continent. At present this may be conveniently done by three notes of 5*l.* and four of 1*l.*, enclosed by post; but when there shall be no 1*l.* notes, the odd 4*l.* must be sent in gold or silver, not conveniently carried in a post letter, and requiring that a person be employed for the purpose, and at some expense."

Fifthly, we may observe, as a law of the circulation in Scotland, that the small notes in circulation do not fluctuate in exact conformity with the fluctuations in the amount of large notes. (See Appendix No. I.)

In a paper we read before the British Association at Belfast, in the year 1852,* we made the following observation upon the circulation of Ireland:—"Viewing the monthly circulation, we observe that the small notes, like the large notes, are at their lowest amount about the month of August, and at their highest amount about January. But we observe also, that from August the small notes increase more rapidly than the large ones, and after January they decline more rapidly; so that in every year the proportion of small notes in circulation is greater in January than in August. In a table that I have compiled for the purpose, it is shown, that the small notes bear a higher proportion to the large notes in the month of January than in the month of August. Thus, in January, 1846, the small notes were 58·94 per cent. of the circulation; but in August they were only 54·33 per cent. We may also observe, that those years that have the largest circulation have also the largest proportion of small notes: thus, in 1846, the respective proportions for January and August are, 58·94 and 54·33; but, in the year 1849, the proportions were only for January 50·72, and for August 44·95 per cent. This is an indication that the reduction of circulation had taken place chiefly in the small notes; and this again

* Published in the Journal of the Statistical Society of London, vol. xv., p. 307.

shows that the distress had fallen chiefly on the smaller cultivators of the soil."

It will be seen that the fluctuations in the amount of notes in circulation in Scotland do not correspond with those of Ireland. It will also be seen that there is no corresponding fluctuation in the small notes, as compared with the large notes. In Ireland, when the total circulation is at the highest, the circulation of the small notes is at the highest, and higher in proportion than when the total circulation is lower. It is not so in Scotland. It will be seen by Appendix No. XI., that the highest circulation in the year 1854 was during the four weeks ending June 10th and November 25th. In these periods the small notes were also high, but not so high in proportion to the large notes as in the months ending April 15th and September 30th. The difference between the two countries arises from this:—In Ireland, the increase in the circulation from September to January arises from the harvest; and as the produce is purchased from the farmers in small quantities, the greatest increase is in the small notes. But in Scotland, the increase of the circulation in May and November arises from large payments, such as we have mentioned, and therefore the greatest increase is in large notes. It is not the custom to make these payments by cheques, as in London, but in 100*l.* bank notes.

These are some of the laws of the currency in Scotland. More minute returns, or a more minute acquaintance with the operations of the banks, might possibly discover other laws. But these are sufficient to show that the circulation of notes in Scotland is not regulated, as some have supposed, by the mere caprice of the bankers, but by fixed causes connected with the economical condition of the country.

It must not be supposed that these laws of the currency are peculiar to Scotland. On the contrary, we think they exist more or less in all countries. But in Scotland they are capable of statistical demonstration. They can be more distinctly traced, inasmuch as Scotland has no gold currency, no banks with exclusive privileges, nor banks of issue whose partners are limited to six. There is no law to restrict the

junction of two or more banks of issue. There is no circle drawn around Edinburgh within which large banks of issue are not allowed to enter ; but every bank may issue notes in any part of the land. Her bankers are not dealers in gold or silver bullion, nor have their notes ever been issued with any view to affect the foreign exchanges, or to promote the financial operations of the Government.

IV.—*The Operations affecting the Currency by the Laws of* 1845.

The Act which now regulates the issue of bank notes in Scotland is 8 & 9 Vict. c. 38, passed in the year 1845.

By this Act the power of issuing notes is confined to those banks that issued notes in the year preceding the 1st day of May, 1845. And the amount to which each bank may issue is not to exceed the average amount of notes it had in circulation during the year ending the 1st of May, 1845 ; and the amount of gold or silver coin it may at the time have in possession at the head office or principal place of issue, in the proportion that the silver shall not be more than one-fourth the amount of the gold.

This Act was to come into operation on the 6th day of December, 1845. After which day each banker is to make weekly returns to the Stamp Office of his notes in circulation, and of the gold and silver coin on hand ; and the averages of four weeks are to be published in the "London Gazette," with a certificate from the commissioner as to whether the bank has held the amount of coin required by this Act.

All banks, except the Bank of Scotland, the Royal Bank of Scotland, and the British Linen Company, are required to send to the Stamp Office, between the 1st and 15th days of January inclusive, the names of all their partners, which shall be published by the 1st day of March following, in some newspaper circulating within each town or county respectively, in which the head office or principal place of issue of such bank is situated. Bank of England notes are not to be a legal tender in Scotland.

The issue of bank notes in England is regulated by the Act

of 1844; but the provisions of the two Acts differ in several respects.

The Act which limited the circulation of Scotland, provided against its amount becoming reduced by allowing two or more banks to unite, and to issue notes to the amount of their united circulations. Hence if a bank of issue has occasion to wind up its affairs, it will make an arrangement with some other bank of issue, and by making an agreement for some kind of union, it can transfer the amount of its circulation. In England, on the other hand, if any bank of issue not exceeding six, should increase the number of its partners beyond six, it loses its circulation. If any two banks of issue, each not exceeding six partners, should unite so as to increase the number of partners beyond six, both banks would lose their circulation. If any private bank should transfer its business to a joint-stock bank, the circulation would be lost. If any joint-stock bank should merge its business in another joint-stock bank, its circulation would be lost. If any two joint-stock banks of issue should unite and form a new bank, the circulation of both banks would be lost.

But the Act of 1845 not only provided for the maintenance of the circulation of Scotland, it also permitted its extension. Any bank was allowed to increase its issue beyond the certified amount, provided it held in its coffers a sum of gold equal to the amount of the excess. The Act of 1844 prohibited every English bank from issuing beyond the certified amount; and should it do so for even a single month, it incurred a penalty equal to the amount of the excess.

The Act of 1845 has produced several practical effects in the management of the banks of Scotland. Had not the Act of 1845 been passed, it is probable that new banks of issue would have been formed in Scotland during the speculations of the year 1846; and there might have been great competition between the old and the new banks. There is now among the banks a less spirit of competition than formerly. There are fewer attempts to attract customers by the offer of increased accommodation. There is less disposition to grant cash

credits, and a less anxiety to obtain those accounts that put into circulation a large amount of notes. Some advances, too, have been made upon banking charges. The banks have attempted to reimburse themselves for the increased expense of keeping gold, by charging a commission upon the amount of the cash credits and upon payments made in London. Thus confirming the doctrine—a doctrine that statesmen are slow to learn—that restrictions upon banks are taxes on the public.

It may be asked, What is the reason that, since the year 1844, the circulation of Scotland has almost uniformly advanced, while that of the private and joint-stock banks of England has uniformly declined?

In our paper on the Laws of the Currency in England,* read before the Statistical Section at Liverpool, we stated what we considered to be the causes of the decline in the English circulation. But these causes do not apply to Scotland. The banks of Scotland were permitted to issue beyond the certified circulation upon a deposit of gold. The introduction of the penny postage did not reduce their notes, as this was rendered unnecessary by their system of exchange. The banks had no inducement offered to them to withdraw their notes; and they had to maintain no contest with branches of the Bank of England. The banks of Scotland too had large capitals, and were free from the contingencies attached to those English banks which had been called into existence by the iniquitous Act of 1708. To this it may be added, that the deposit system of banking with payments by cheques has not extended in Scotland as in England, since the Acts of 1844 and 1845.

In operating on his current account, it is not the general practice in Scotland for a customer to draw cheques on the bank for his individual payments, nor to accept bills payable at the bank. If he has to make twenty payments in the course of the day, he will go to the bank in the morning, and draw out in one sum a sufficient amount of notes to make all these payments. On the other hand, if a customer should receive money from twenty different people in the course of

* Statistical Journal, vol. xvii., p. 289.

the day, he will not receive cheques, as there are none in circulation, but bank notes, which, at the close of the day, he will pay in one sum into the bank. In England, all these receipts and payments would be made in cheques, each having probably odd shillings and pence. From this cause the trouble and expense to a bank of conducting a current account is much greater in England than in Scotland.

A few years ago an attempt was made to form a bank to be called the Dunedin Bank of Scotland. One of the advantages it held out to the public was the adoption of the English system of drawing cheques for individual payments. The advantages of this system are pointed out in the prospectus (see Appendix No. XII.), and it was proposed to charge the customers of the bank a half-penny or, if necessary, a penny on each cheque. Here we find that the Scotch bankers calculated that the adoption of the English system of drawing cheques might occasion a cost to the bank of one penny a cheque.

In addition to these negative causes connected with the circulating notes in Scotland, there have been others of more active operation. Scotland has not only shared largely in the general prosperity of the United Kingdom, but has had local causes of prosperity arising from the immense sums expended, since the year 1845, in the construction of railways, and the great increase in the manufactures and commerce of Glasgow, and its neighbourhood.

The Act of 1845 has not been successful in imparting to the people of Scotland a taste for gold. The bankers are too wise to issue the gold unless when it is demanded: and the public are too wise to make such a demand. Hence when the increase of the currency requires a further importation, the gold is quietly brought from London to Edinburgh, is quietly locked up in the vaults of the bank, and when no longer required, is quietly sent back again. Of course this is a loss to the banks, of interest, and of the expenses of these transmissions. But in this way it is less injurious than if put into circulation. Disastrous for Scotland will be the day when the people shall become inoculated with the love of a gold

currency. The effect of such a desire in England is strikingly exhibited in seasons of pressure. When such pressures occur in Scotland, the banks can employ their whole resources to assist their customers and to support public credit. But when they occur in England, the banks have, in the first instance, to take care of themselves. The banks of issue have to find gold to meet their notes, and at a time too when the gold is leaving the country, and causing a corresponding contraction of Bank of England notes. (See Appendix No. XIII.)

We may observe in conclusion, that the laws of the currency in Scotland, to which we have invited the attention of the Section, have not been enacted by the legislature. From 1765 to 1845, a period of eighty years, no Act of Parliament was passed for the regulation of the issue of bank notes in Scotland—and the Act of 1765 was merely to prohibit notes under 5*l.* Were an English statesman now to put to the Scotch bankers the question, once addressed by a minister of commerce to a body of French merchants—"What can I do to serve you?" they would probably make the same reply—"The greatest service you can render us, is to let us alone."

APPENDIX.

The following table, which I constructed from the Parliamentary Evidence of 1826, contains an account of the Number of the Banks in Scotland, the name of the firm or bank, date of its establishment, place of the head office, number of branches, and the number of partners.

No. I.

Names of Banks or Firms.	Date.	Head Office.	Number of Branches.	Number of Partners
1. Bank of Scotland	1695	Edinburgh	16	Chart.
2. Royal Bank of Scotland	1727	Ditto	1	Ditto
3. British Linen Company	1746	Ditto	27	Ditto
4. Aberdeen Banking Company . .	1767	Aberdeen	6	80
5. Aberdeen Town and County Bank .	1825	Ditto	4	446
6. Arbroath Banking Company . .	1825	Arbroath	2	112
7. Carrick and Co., or Ship Bank . .	1749	Glasgow	None	3
8. Commercial Banking Co. of Scotland	1810	Edinburgh	31	521
9. Commercial Banking Company . .	1778	Aberdeen	None	15
10. Dundee Banking Company . . .	1777	Dundee	None	61
11. Dundee New Bank	1802	Ditto	1	6
12. Dundee Commercial Bank . . .	1825	Ditto	None	202
13. Dundee Union Bank	1809	Ditto	4	85
14. Exchange and Deposit Bank . .	..	Edinburgh	..	1
15. Falkirk Banking Company . . .	1787	Falkirk	1	5
16. Fife Banking Company	1802	Cupar, Fife	..	39
17. Greenock Banking Company . .	1785	Greenock	3	14
18. Glasgow Banking Company. . .	1809	Glasgow	1	19
19. Hunters and Co.	1773	Ayr	3	8
20. Leith Banking Company . . .	1792	Leith	4	15
21. National Bank of Scotland . . .	1825	Edinburgh	8	1,238
22. Montrose Bank	1814	Montrose	2	97
23. Paisley Banking Company . . .	1783	Paisley	4	6
24. Paisley Union Bank	1788	Ditto	3	4
25. Perth Banking Company . . .	1766	Perth	5	147
26. Perth Union Bank	1810	Ditto	..	69
27. Ramsays, Bonars, and Company. .	1738	Edinburgh	None	8
28. Renfrewshire Banking Company .	1802	Greenock	5	6
29. Shetland Bank	..	Lerwick	..	4
30. Sir William Forbes and Co. . . .	..	Edinburgh	..	7
31. Stirling Banking Company . . .	1777	Stirling	2	7
32. Thistle Bank	1761	Glasgow	..	6

Of these 32 banks only 8 remain. These are Nos. 1, 2, 3, 5, 8, 10, 21, and 25.

Private Banking Companies, in the Year 1826, who did not Issue Notes.

Names of Firms or Banks.	Date.	Head Office.	Number of Branches.	Number of Partners
1. Thomas Kinnear and Sons . . .	1748	Edinburgh	None	..
2. Donald, Smith, and Co.	1773	Ditto	None	..
3. Robert Allen and Son	..	Ditto	None	..
4. Alexander Allan and Co. . . .	1776	Ditto	None	..

Of these only one remains (No. 4).

No. II.

The following Banks of Issue have been formed since 1826, and still remain:—

Name of Bank.	Head Office.	Date.
1. The Union Bank of Scotland . . .	Glasgow	1830
2. The Western Bank of Scotland . .	Ditto	1831
3. The Central Bank of Scotland . . .	Perth	1834
4. The North of Scotland Bank . . .	Aberdeen	1836
5. The Clydesdale Bank	Glasgow	1838
6. The Eastern Bank of Scotland . .	Dundee	1838
7. The Edinburgh and Glasgow Bank .	Edinburgh	1838
8. The Caledonian Bank	Inverness	1839
9. The City of Glasgow Bank . . .	Glasgow	1839

Three other banks have also been formed since 1826, but they have since merged into other establishments. These are—

1. The Ayrshire Bank, at Ayr, 1831, merged in the Western Bank of Scotland.
2. The Southern Bank of Scotland, at Dumfries, 1838, merged in the Edinburgh and Glasgow Bank.
3. The Glasgow Joint-Stock Bank, at Glasgow, 1840, merged in the Edinburgh and Glasgow Bank.

No. III.

The following table exhibits the Capital and other particulars of the Banks of Issue in Scotland, with the Price of their Shares, as publicly quoted in December, 1854:—

(*From the Edinburgh Almanack for* 1855.)

Instituted.	Name.	Partners.	Branches	Paid-up Capital.	Dividend. Rate.	Dividend. Payable.	Share Paid.	Price. £	Price. s.	Price. d.
				£			£	£	s.	d.
1695	Bank of Scotland *	..	31	1,000,000	7	Apr. & Oct.	100	178	10	0
1727	Royal Bank *	979	9	2,000,000	5	Jan. & July	100	128	0	0
1746	British Linen Company * . .	578	44	1,000,000	8	June & Dec.	100	205	10	0
1810	Commercial Bank *	645	53	†600,000	†8	Jan. & July	100	205	0	0
1825	National Bank of Scotland * .	1,486	42	1,000,000	7	Jan. & July	100	168	15	0
1829	Union Bank of Scotland . .	850	56	1,000,000	8	June & Dec.	50	90	0	0
1838	Edinburgh and Glasgow Bank	1,540	22	1,000,000	4	Feb. & Aug.	5	4	14	6
1825	Aberdeen Town & County Bk.	484	14	134,575	6	Mar. & Sept.	5	6	17	0
1836	North of Scotland Banking Co.	1,437	28	191,352	8	May & Nov.	2½	4	12	0
1763	Dundee Banking Company .	76	1	60,000	5	March	60	85	0	0
1838	Eastern Bank of Scotland . .	420	4	121,140	6	May & Nov.	10	10	15	0
1832	Western Bank of Scotland . .	1,255	81	1,500,000	8	July & Dec.	50	77	10	0
1838	Clydesdale Banking Company .	1,429	11	807,380	6	Feb. & Aug.	10	12	0	0
1839	City of Glasgow Bank . . .	1,270	43	1,000,000	5½	Feb. & Aug.	10	10	17	6
1838	Caledonian Banking Company.	819	8	125,000	8	August	2½	3	18	6
1766	Perth Banking Company . .	200	7	100,050	9	July	100	200	0	0
1834	Central Bank of Scotland . .	447	8	62,500	8	September	25	50	0	0
		13,915	462	11,701,997						
	Average . . .	818	27	688,352						

* The capital of the banks marked with an asterisk is not in shares, but in stock, transferable to any amount. † And a bonus of 2 per cent.

No. IV.

Joint-Stock Banks.

"There is no limitation upon the number of partners of which a banking company may consist, and, excepting in the case of the Bank of Scotland, and the two chartered banks, which have very considerable capitals, the partners of all banking companies are bound jointly and severally, so that each partner is liable to the whole extent of his fortune for the whole debts of the company.

"The law relating to the establishment of records gives ready means of procuring information with respect to the real and heritable estate of which any person in Scotland may be possessed. No purchase of an estate in that country is secure until the seisine (that is, the instrument certifying that actual delivery has been given,) is put on record; nor is any mortgage effectual until the deed is in like manner recorded.

"In the case of conflicting pecuniary claims upon real property, the preference is not regulated by the date of the transaction, but by the date of its record. These records are accessible to all persons; and thus the public can, with ease, ascertain the effective means which a banking company possesses of discharging its obligations, and the partners in that company are enabled to determine, with tolerable accuracy, the degree of risk and responsibility to which the private property of each is exposed."*

No. V.

A Statement of the Amount of the Paid-up Capitals and of the Deposits in the Joint-Stock Banks of London, and the Proportion per Cent. which the Capitals bear to the Deposits.

		Paid-up Capital.	Deposits.	Proportion per Cent. of Capital to Deposits.
		£	£	
London & Westminster Bank	30th June, 1855	1,000,000	8,166,553	12¼
London Joint-Stock Bank	,,	600,000	6,534,238	9
Union Bank of London	,,	600,000	8,363,460	7
Commercial Bank . .	,,	300,000	1,317,554	22¾
Royal British Bank .	,,	100,000	982,382	10
		2,600,000	25,364,187	10¼
London and County Bank		466,332	4,012,223	11½
		3,066,332	29,376,410	10¼

* Report of the Committee of the House of Commons appointed in 1826 to consider the expediency of abolishing all notes under 5*l*.

No. VI.

Paid-up Capital.

"Two great errors appear to have been committed in the formation of joint-stock banks in England, and until these are remedied such establishments can hardly expect to reach a higher degree of importance or credit than is attainable by a wealthy private bank. These evils are, in the first place, too small a capital relatively to the extent of business undertaken; and, in the next place, the circumstance of the issues of joint-stock banks being left uncontrolled by any effective system of exchange.

"The advantage of a small capital in banking is, that it enables the establishment, if at all successful in business, to pay a large dividend. The profits of banking depend, in a great measure, on the amount of deposits and circulation, and according as these are great or small, compared with the extent of the capital, will the company be enabled to divide a larger or smaller dividend. It therefore becomes the obvious policy of those establishments, the managers of which conceive that the success of a bank is proved by the early payment of a high dividend to keep the capital of the company within the narrowest possible limits.

"This system has been carried to the utmost extreme in England, and hence, although large dividends have been paid to the shareholders, there has been no corresponding increase of confidence on the part of the public.

"The Scotch Banks, on the other hand, have pursued a directly opposite course. Their object has been to secure public confidence by the extent of their capital, and they have continued to pay moderate dividends to their shareholders, until justified in augmenting them by years of success, and a large accumulated sinking-fund. So well, indeed, is this system understood, and so completely has it attained its purposes, that the slightest appearance of improvidence displayed by a Scotch joint-stock bank, in fixing the amount of its dividend, has been invariably attended with a decrease of the public confidence in the stock of the establishment. In this manner public confidence has been secured, the value of Scotch bank stock has risen in the market, and the shareholders have received their extra profits as a *bonus*, or in the increased value of their own shares.

"Thus, instead of being looked upon as establishments aiming at the ephemeral advantage of making a large dividend, for stock-jobbing or temporary purposes, our banks have almost invariably assumed the character of permanent national establishments, identified with the prosperity of the country, and, by means of their small note circulation, conferring benefit on, as well as obtaining the confidence of, every class in the community."—*Letter to J. W. Gilbart, Esq., on the Relative Merits of the English and Scotch Banking Systems, by* ROBERT BELL.

No. VII.

A Statement of the Average Circulation of Notes in Scotland for each Month during the Years 1834 to 1843, both inclusive.

	1834.	1835.	1836.	1837.	1838.	1839.	1840.
	£	£	£	£	£	£	£
January	3,004,983	3,056,828	3,091,510	3,149,321	3,000,288	3,244,603	3,076,585
February	2,967,966	2,993,431	3,005,626	3,074,541	2,902,077	3,141,885	2,968,874
March	2,836,574	2,856,666	2,947,446	2,931,429	2,820,476	3,024,427	2,764,692
April	2,836,380	2,873,359	3,054,217	2,863,924	2,931,650	3,058,398	2,954,434
May	3,234,589	3,223,135	3,409,317	3,280,145	2,343,172	3,397,019	3,496,980
June	3,246,732	3,219,757	3,244,996	3,042,897	3,409,068	3,419,953	3,428,401
July	3,108,239	3,058,053	3,230,066	2,977,539	3,121,882	3,165,761	3,228,595
August	3,092,314	3,040,368	3,220,573	2,937,273	3,138,352	3,155,406	3,203,706
September	3,133,644	3,037,925	3,204,376	2,957,730	3,112,289	3,124,807	3,248,968
October	3,234,571	3,134,993	3,350,968	3,110,527	3,310,173	3,290,263	3,384,885
November	3,448,307	3,412,085	3,649,481	3,460,518	3,628,131	3,590,514	3,736,074
December	3,262,101	3,267,691	3,206,068	3,107,554	3,637,215	3,350,724	3,516,534
Total	37,406,400	37,174,291	38,614,644	36,893,398	37,354,773	38,963,760	39,008,728
Average	3,117,200	3,097,857	3,217,887	3,074,449	3,112,898	3,246,980	3,250,727

1841.		1842.		1843.	
	£		£		£
January	3,174,555	February 5th	2,922,882	February 4th	2,629,691
February	3,035,892	March 5th	2,811,109	March 4th	2,588,370
March	2,944,300	April 2nd	2,670,290	April 1st	2,457,604
April	3,024,660	„ 30th	2,590,715	„ 29th	2,487,311
May	3,406,986	May 28th	2,951,383	May 27th	2,843,162
June	3,374,341	June 25th	2,887,038	June 24th	2,869,863
July 24th	3,181,594	July 23rd	2,715,680	July 22nd	2,665,326
August 21st	3,074,393	August 20th	2,674,835	August 19th	2,667,378
September 18th	2,092,549	September 17th	2,648,549	September 16th	2,659,176
October 10th	3,202,703	October 15th	2,743,795	October 14th	2,762,353
November 13th	3,383,036	November 12th	2,891,865	November 11th	2,945,030
December 11th	3,448,660	December 10th	3,091,228	December 9th	3,166,920
1842.		1843.		1844.	
January 8th	3,070,075	January 7th	2,770,838	January 6th	2,901,746
Total	41,414,744	Total	36,370,207	Total	35,643,930
Average	3,185,750	Average	2,797,708	Average	2,741,841

No. VIII.

A Statement of the Average Circulation of Notes in Scotland for each of the Four Weeks during the Years 1844 to 1854, both inclusive.

1844.	Amount.	1845.	Amount.	1846.	Amount.	1847.	Amount.	1848.	Amount.
	£		£		£		£		£
February 3rd.	2,791,403	February 1st.	3,070,058	January 31st.	3,182,225	January 30th.	3,700,731	January 29th.	3,151,022
March 2nd.	2,684,191	March 1st.	2,986,708	February 28th.	3,083,792	February 27th.	3,503,300	February 26th.	3,034,367
,, 30th.	2,610,712	,, 29th.	2,950,870	March 28th.	3,018,771	March 27th.	3,360,348	March 25th.	2,951,937
April 27th.	2,714,627	April 26th.	3,001,240	April 25th.	3,096,317	April 24th.	3,395,524	April 22nd.	2,934,171
May 25th.	3,041,079	May 24th.	3,357,251	May 23rd.	3,401,382	May 22nd.	3,516,944	May 20th.	3,152,319
June 22nd.	3,117,988	June 21st.	3,485,531	June 20th.	3,508,655	June 19th.	3,647,314	June 17th.	3,437,587
July 20th.	2,903,322	July 19th.	3,333,906	July 18th.	3,390,060	July 17th.	3,495,921	July 15th.	3,106,645
August 17th.	2,894,853	August 16th.	3,303,255	August 15th.	3,371,906	August 14th.	3,455,651	August 12th.	3,035,903
September 14th.	2,940,456	September 13th.	3,341,397	September 12th.	3,446,787	September 11th.	3,497,525	September 9th.	3,021,307
October 12th.	2,987,665	October 11th.	3,428,074	October 10th.	3,665,155	October 9th.	3,559,976	October 7th.	3,136,516
November 9th.	3,284,295	November 8th.	3,593,988	November 7th.	3,765,264	November 6th.	3,606,718	November 4th.	3,306,273
December 7th.	3,486,818	December 6th.	3,804,031	December 5th.	3,996,861	December 4th.	3,732,585	December 2nd.	3,570,126
1845.		1846.		1847.		1848.		,, 30th.	3,276,826
January 4th.	3,159,450	January 3rd.	3,336,409	January 2nd.	3,787,151	January 1st.	3,341,317		
Total...	38,616,859	Total...	42,992,718	Total...	44,714,326	Total...	45,713,854	Total...	41,114,999
Average.	2,970,528	Average.	3,307,132	Average.	3,439,564	Average.	3,516,450	Average.	3,162,692

1849.	Amount.	1850.	Amount.	1851.	Amount.	1852.	Amount.	1853.	Amount.	1854.	Amount.
	£		£		£		£		£		£
Jan. 27th	3,032,872	Jan. 26th	3,112,859	Jan. 25th	3,252,485	Jan. 24th	3,283,502	Jan. 22nd	3,612,710	Jan. 21st	3,998,126
Feb. 24th	2,952,177	Feb. 23rd	3,054,463	Feb. 22nd	3,138,226	Feb. 21st	3,178,859	Feb. 19th	3,529,986	Feb. 18th	3,974,109
Mar. 24th	2,935,120	Mar. 23rd	2,993,621	Mar. 22nd	3,033,235	Mar. 20th	3,081,769	Mar. 19th	3,443,894	Mar. 18th	3,844,363
April 21st	2,907,915	April 20th	3,014,526	April 19th	3,082,416	April 17th	3,111,970	April 16th	3,492,622	April 15th	3,834,098
May 19th	3,129,189	May 18th	3,194,711	May 17th	3,254,470	May 15th	3,303,002	May 14th	3,687,329	May 13th	3,967,606
June 16th	3,380,902	June 15th	3,471,528	June 14th	3,474,171	June 12th	3,580,302	June 11th	4,026,225	June 10th	4,319,098
July 14th	3,111,724	July 13th	3,238,520	July 12th	3,215,440	July 10th	3,338,295	July 9th	2,761,640	July 8th	4,029,561
Aug. 11th	3,075,970	Aug. 10th	3,172,656	Aug. 9th	3,154,984	Aug. 7th	3,307,750	Aug. 6th	3,746,294	Aug. 5th	3,962,576
Sept. 9th	3,053,322	Sept. 7th	3,173,784	Sept. 6th	3,125,691	Sept. 4th	3,334,198	Sept. 3rd	3,728,890	Sept. 2nd	3,867,441
Oct. 6th	3,139,414	Oct. 5th	3,242,595	Oct. 4th	3,166,005	Oct. 2nd	3,443,061	Oct. 1st	3,843,226	,, 30th	3,970,706
Nov. 3rd	3,281,709	Nov. 2nd	3,318,618	Nov. 1st	3,313,433	,, 30th	3,620,689	,, 29th	3,987,689	Oct. 28th	4,182,128
Dec. 1st	3,500,186	,, 30th	3,594,247	,, 29th	3,590,459	Nov. 27th	3,903,882	Nov. 26th	4,286,486	Nov. 25th	4,451,908
,, 29th	3,242,448	Dec. 28th	3,345,649	Dec. 27th	3,356,974	Dec. 25th	3,764,064	Dec. 24th	4,112,787	Dec. 23rd	4,316,095
Total..	40,742,948	Total..	41,927,777	Total..	42,157,989	Total..	44,251,343	Total..	49,259,777	Total..	52,717,815
Average	3,134,073	Average	3,225,214	Average	3,242,922	Average	3,403,949	Average	3,789,214	Average	4,055,216

No. IX.

The Circulation of the Banks in Scotland, with the Proportion between the Large and Small Notes during the Four Weeks ending June 6th, 1855.

Name of Banks.	Total Circulation.	Notes of £5 and upwards.	Notes under £5.	Proportion per Cent. of Notes under £5 to the whole Circulation.
	£	£	£	
Bank of Scotland. . . .	421,872	143,151	273,721	64·88
Royal Bank of Scotland . .	208,772	79,435	129,337	61·95
British Linen Company . .	529,024	205,805	323,219	61·10
Commercial Bank of Scotland	525,560	182,176	343,384	65·34
National Bank of Scotland .	358,353	123,725	234,628	65·47
Union Bank of Scotland and Banking Company in Aberdeen	546,705	200,190	346,515	63·38
Edinburgh and Glasgow Bank	170,587	69,725	100,862	59·13
Aberdeen Town and County Bank	124,785	48,419	76,366	61·20
North of Scotland Banking Company	239,311	128,578	110,733	46·27
Dundee Banking Company .	45,464	17,861	27,603	60·71
Eastern Bank of Scotland .	43,130	18,914	24,216	56·15
Western Bank of Scotland .	577,039	185,552	391,487	67·84
Clydesdale Banking Company	166,839	60,273	106,566	63·87
City of Glasgow Bank . .	221,334	94,901	126,433	57·12
Caledonian Banking Company	77,851	27,360	50,491	64·86
Perth Banking Company .	57,331	22,410	34,921	60·91
Central Bank of Scotland .	63,738	24,232	39,505	61·98
Totals . . .	4,377,695	1,632,707	2,744,987	62·70

No. X.

Amount of Bank Notes authorized by law to be issued by the several Banks of Issue in Scotland, and the Average Amount of Bank Notes in Circulation and of Coin held during Thirteen Periods of Four Weeks, from November 27th, 1852, to October 29th, 1853; and from November 26th, 1853, to October 28th, 1854—as published in the Gazette.

Names of Banks.	Authorized Circulation.	Average Circulation, 1852–53.	Coin, 1852–53.	Average Circulation, 1853–54.	Coin, 1853–54.
	£	£	£	£	£
Bank of Scotland .	300,485	369,432	127,006	396,179	155,608
Royal Bank . . .	183,000	184,703	48,253	186,749	52,265
British Linen Company	438,024	467,543	133,191	501,663	159,633
Commercial Bank of Scotland . . .	374,880	459,926	141,611	500,233	183,925
National Bank of Scotland . . .	297,024	308,480	60,716	342,222	85,761
Union Bank of Scotland	415,690	493,311	141,989	519,750	168,380
Edinburgh and Glasgow Bank. . .	136,657	153,762	40,609	158,068	47,694
Aberdeen Town and County Bank . .	70,133	96,844	34,520	107,188	42,318
North of Scotland Banking Company	154,319	175,925	40,477	196,382	58,857
Dundee Banking Company . . .	33,451	34,791	5,417	37,707	7,551
Eastern Bank of Scotland . . .	33,636	37,218	7,277	42,514	12,199
Western Bank of Scotland . . .	337,938	501,765	220,458	526,632	272,780
Clydesdale Banking Company . . .	104,028	126,559	43,992	140,819	68,908
City of Glasgow Bank	72,921	160,316	99,576	178,635	119,796
Caledonian Banking Company . . .	53,434	66,586	23,745	74,552	31,948
Perth Banking Company	38,656	43,520	13,159	49,187	18,037
Central Bank of Scotland	42,933	52,314	16,021	58,680	22,360
	3,087,209	3,732,995	1,198,017	4,026,160	1,508,020
Average. .	181,600	219,587	70,471	236,832	88,707

No. XI.

A Table showing the Proportion between the Small and the Large Notes in Circulation in Scotland in each Month during the Year 1854.

1854. The Four Weeks ending	Total Circulation.	£5 and upwards.	Under £5.	Proportion per Cent. of Notes under £5 to the whole Circulation.
	£	£	£	£
January 21st .	3,998,126	1,345,312	2,652,812	66·35
February 18th .	3,974,109	1,405,994	2,568,114	64·62
March 18th .	3,844,363	1,350,554	2,493,804	64·87
April 15th .	3,834,098	1,314,003	2,520,091	65·73
May 13th .	3,967,606	1,398,615	2,568,986	64·75
June 10th .	4,319,098	1,530,290	2,788,804	64·57
July 8th .	4,029,561	1,408,582	2,612,272	64·83
August 5th .	3,962,576	1,384,162	2,578,413	65·07
September 2nd .	3,867,441	1,304,628	2,562,808	66·27
September 30th .	3,970,706	1,322,002	2,648,696	66·71
October 28th .	4,182,128	1,454,939	2,727,185	65·21
November 25th .	4,451,908	1,543,601	2,908,304	65·33
December 23rd .	4,316,095	1,522,168	2,793,922	64·73

No. XII.

The Dunedin Bank (Payments by Cheques).

"Were the principle adopted in its full extent, the bank would, in reality, become general cashier for their customers; and the necessity of having money in hand, for the purpose of meeting every-day expenses, would be, in a great measure, superseded. A larger portion of funds would be consequently in deposit bearing interest, and, at the same time, as ready for use, as if in the coffer or pocket-book of its owner. By this means, likewise, a regular journal of receipt and expenditure would be carried on without the slightest trouble on the part of the individual concerned, who, at the end of the year, or of the periodical balancing of accounts, would find an authentic record of his ordinary transactions. Here, too, he would find the vouchers for the payments he had made, and would be under no apprehension of being called upon, in repetition of payment, through any loss of his receipts.

"As much inconvenience and trouble will be necessarily incurred by the adoption of this plan, it is proposed to meet the additional expense by a small tax upon the transactions themselves; and it is calculated that the trifling commission of a halfpenny upon each single payment or

entry, 4*s.* 2*d.* upon the hundred, will afford sufficient remuneration for the increase of labour. Should the fee be found too small to remunerate, or to guard sufficiently against the abuse of the privilege, it will of course be easy for the bank to increase the charge—say, to one penny, or more, on each transaction."

No. XIII.

A Gold Currency.

"Nor are these benefits, great as they are, the only advantages which we have derived from our system of banking. Our one-pound notes connect and familiarize every artizan and labourer in the country with our banking establishments; and the implicit confidence in our paper currency thus created, and perpetuated by the general experience of the sufficiency of our banks, has on many occasions been remarkably illustrated. It is no exaggeration to say, that, at this moment, nine-tenths of the labouring classes of Scotland, if they had their choice, would prefer a one-pound note to a sovereign; and, as a consequence of this feeling of security, combined with a sense of the other advantages of the system, no one in Scotland can have forgotten the truly national stand, on behalf of our currency, which was made by rich and poor in the year 1825, when your English economists proposed to visit us with an injury similar to that which was in that year inflicted on England.

"With banking establishments thus pre-eminently possessed of national confidence, no mercantile convulsion has hitherto created any general run on our great joint-stock banks. It has been otherwise in England, where, in consequence of legislative enactments, the public have been taught to regard *gold* and *silver* as the only representatives of value. The bond of union between the banks and the mass of the people has thus been severed; and when a monetary crisis occurs, its consequences are incalculably more injurious. With us (though very rarely) runs have been made occasionally on particular banks; but it has been merely to withdraw a deposit from one bank to place it in another, or to exchange the notes of a suspected bank for the *notes* of one of our national joint-stock banks, the prevailing confidence in our paper currency remaining unshaken. In this way the disposable banking capital or resources remain in the aggregate unchanged; whereas, with you, the run is for gold; and the coin thus withdrawn from one bank is not re-deposited in another, but hoarded till the panic is over, by which means the entire banking resources of the country are involved in the consequences of the temporary disasters, and this, too, at the very time when these resources are most needed."—*Letter to J. W. Gilbart, by* Robert Bell.

INDEX.

ABOLITION of bank notes, of and under certain amounts, 35, 39, 49, 50, 55. *See* Small Notes.

Abundance of money precedes pressures, 256, 287.

Advances, by Bank of England to Government, 28, 30, 33, 35, 36, 40, 50, 51; prohibited to be made without sanction of Parliament, 48; to bankers of London, Westminster, and Southwark, 39; on Government stock; on mortgage; to East India Company, 51; during panic, 1825, 54; upon the security of goods, deposits and pledges, bills of lading, warrants, &c., 55; of money by bankers generally, in what way soever made, are in fact loans, 148.

Agent, London, of country bankers, mode of payment, 79.

Agio, or premium, in Holland, 1609, 9.

Agricultural and Commercial Bank of Ireland, formation of, in 1834, 235.

Amalgamation, an, of the laws of the currency into one system—the peculiar and uniform laws governing respectively the Bank of England, country circulation of England, circulation of Ireland, and circulation of Scotland, would render impracticable, 399.

America, free trade banking in, controverted, 339.

Amount of gold required to be sent abroad regulates the exchanges, 116.

Annuities, Government, purchase of, Act 27 and 28 Vict. c. 43, *note*, 156.

Assimilation of the currency of Ireland to that of England, 199; of stamp duties, 225.

Athens, banking at, 3.

Attempts made to evade provisions of Act of 1844, showing that in some instances it was felt to be a restriction, 395.

Australia, discovery of gold in, and practical effect on the operations of the banks in Ireland, 381; and on those of Scotland, 440.

Banco die poverie described, 150.

Bank, origin of word, 7.

Bank notes, legal definition of, at from 15 to 20 per cent. discount, 26, 387.

Bank post bills, first issue of, and cause thereof, 33, 35, and *see* 58.

Bank of England, history of, 23–77; projectors thereof; violent opposition to its establishment; Act passes and receives royal assent; Bishop Burnet's opinion upon project, 23–4; charter of 1694, 25; the contract of the Directors of, with the South Sea Company, 28–9; stone of new building in Threadneedle Street laid, 1731; business transacted in new house 1734, 30–1; charter, public discussion about the propriety of renewal, 1737, 31; commence issuing post bills, and reason thereof, 1738; renewal of charter 1742; run upon, occasioned by rebellion in Scotland in 1745, 33; stolen notes, payment of by, compulsory; first instance of forgery of note of, 1758, 34; further issue of notes and post bills, 35; allowance to, from Government, on account of the management of the public debt, and reduction thereof, 36, 42; suspension of cash payments by, 1797, 37; Restriction Act, 37 Geo. III. c. 45, 39; loss by, of 300,000*l.* by fraud; scarcity of silver, and coinage of dollars, tokens for three shillings and for one shilling and sixpence, 41; reduction of clerks, and liberal conduct of, 50; branches of establishment of, 55; and opposition thereto by country bankers, 57–9; loss sustained by, from amount of silver coin melted in 1831; committee of secrecy of 1832 relative to expediency of renewing the charter, 60–1–2; years of great increase as the reverse in profits of, 62–5; profits whence derived, 65; charter, renewal of, 1833, 60, 76; 1844, 392; government of, 76; directors of, and their qualifications and election, 76. *See* Abolition of

notes of, and under certain amounts. *See* Advances by.
Bank of Ireland, history of, 173; established 1782, 176; began business June 25, 1783; capital increased 1791–97, 1808–21; suspends cash payments 1798; issue of notes between 20*s.* and 5*l.* confined to, 179; parliament house in Dublin sold for, 1802, 181; run for gold on, June, 1830, January, 1831, 229; in constitution and government it closely imitates the Bank of England, producing similar advantages and evils, 173, but exact assimilation to, in respect to laws of circulation impracticable, 399.
Banks in Ireland, registered 1799 to 1804, 180–4; of issue, 1804, 184–5; existing in 1835, 235.
Banks in Scotland, constitution of those issuing notes, 1826, 1855, 429; are all joint-stock; have numerous partners, 430; have large paid-up capitals; are few in number; have many branches, 433; head-quarters of all are in large towns or metropolitan cities, 434; current accounts of, 435; deposit receipts of, 436; cash credits of, 437; system of exchanges between, and payment of balances by; uniform conduct of business by, 438; small notes in, 442.
Banks of issue and non-issue, 409; loan, 147; private and joint-stock, 1844; savings, 152.
Banker defined, 161.
Bankers and banks of Babylon, Egypt, Jewish nations, Greece, Rome, Lombardy, Florence, Venice, Genoa, Barcelona, Amsterdam, 2–9.
Banking capital created both by banks of deposit and banks of circulation, but by different means, and employed in precisely same way, 95.
See Capitals.
Banking in Ireland, 159–235; 359–385.
Belfast Bank, the, 188; that of 1784, 179; Banking Company, the, 221.
Benefit Clubs, 156.
Bills of Exchange, admirably adapted for the purposes of bankers, 118; nature and origin of, 119; advantages of, 122; classes of, 126; short *versus* long, 127; long *versus* short, 128; noting, 128–9; protesting, 130; charges for noting, 131; rate of discount for, 133–140; *versus* cash credits, 145; serving the purposes of currency, 269; the chief circulating medium in Manchester and Liverpool prior to 1826 in lieu of bank notes, 388–9.
Borrowings by English monarchs, 17, 18, 21.
Branch banks, establishment of, 88; comparative merits of those of joint-stock banks and independent private banks considered, 89–91–93; compared with independent joint-stock banks, 91–2; summary of respective claims of the three different kinds of banks, 93; those of Bank of England, 93.
Branches of the Bank of England, establishment of, 55; peculiarity of, as banks of issue, 405.
Brewster, Sir Francis, on trade and navigation, and on loan banks (1695), 151.
British Linen Company formed 1746, 175.
Bubble, South Sea, 28.
Bullion, gold and silver, in ancient times, 2; dealing in, 11, 19; committee of House of Commons, 42; importation of, by Bank of England, and issue of notes consequent thereon, 265, 313; standard fineness of, per ounce, required for payment of notes by Bank of England, 1820, 48; Mint price of, 48, 77; inordinate quantity of, in the Bank 1824, 50; and low amount of in 1825, 54.
Burnet, Bishop, upon the establishment of the Bank of England, 23.

Calculations of the number of days that a bank-note of each denomination remained in circulation, 1792, 1818, 36, 47.
California, discovery of gold in, and practical effect surmised on the operations of the banks in Ireland, 381.
Callan bank, promissory note of, 186.
Calls and subscriptions of Bank of England, 24, 26, 27, 29, 33, 35–6, 46.
Capital, of Bank of England, 24–26–27, 28, 29–33, 35–6, 38, 46, 47; three ways of raising a banking, or borrowing, 94.
Capitals of banks, considered on the principle that the amount paid up should bear some proportion to that of its liabilities, 431–3.
Cash credit banks, 142–6.
Cash credits in Scotland, 437.
Cash payments, suspension of, at Bank of England, 37.
Chamber of St. George, or bank of Genoa, 9.
Chamberlain, Dr. Hugh, projector of Bank of England, 23.
Charity, or loan banks, 6, 149–152.
Charters, Bank of England, 25, 26, 27, 28, 31, 33, 35, 40, 60, 76, 392; Ireland, 447; Scotland, 447.

Chartists cause run on the Savings Banks in 1838, 336.
Checks against excessive issue of notes, 107–8.
Cheques or drafts customary with the bankers of ancient Rome, 6.
Child, Sir Josiah, the "new-fashioned" bankers attacked by, 20; on interest, 135.
Circulation, banks of, 106–18; country, 386–428. *See* Currency, &c.
"Circulation, The Bank," so termed, 34.
Clearing-house, 77, 397.
Clerks, reduction of, in Bank of England, 50.
Clipping coin, and the Act of 25 Henry VI., c. 6, or O'Reyley's Act, 163.
Coin and bullion in relation to the currency, 265.
Coinage, 2, 10–12, 19, 41, 45, 49, 163, 191, 192, 301, *et seq.*; and *see* Gold, Silver, Mint.
Commercial distress in 1793, 37; and 1811, 44. *See* Panics.
Companies and capitals in 1824 and 1825, 51–2.
Comparison of circulation of the country banks with the country circulation of the Bank of England, 404; with the total circulation of Bank of England, 406; of the issuing banks with the non-issuing banks, 409; of the country circulation of England with circulation of Scotland and Ireland, 411.
Composition for stamp duties, 56, 58, 222.
Confidence of public in the banks of Scotland arises from large paid-up capital, 432.
Consols, meaning of word, 34.
Constitution of Bank of England, barring her exclusive privileges, not objected to, 286.
Contraction of the currency, distress caused by, 263; cause of, 267.
Copper coinage, 10.
Cosmo di Medici, the most wealthy merchant ever known, 7.
Countess of Flanders, interest given by, for sum borrowed to pay her husband's ransom, 17.
Country banks, 78; London agency, and mode of payment, 79; returns from, to Stamp Office, of average amount of notes in circulation, 79; observations upon the circulation of, made by, in memorial presented to Earl Grey and Lord Althorpe, 1833, 79; J. H. Palmer, Esq., on issue of, 83; few existed prior to American war; at close rapidly increased; checked, 1793; multiplied wonderfully after passing of Bank Restriction Act, 388.
Country bankers in England, and those of Ireland and Scotland, arrangement proposed for placing them on the same footing, 413.
Country circulation, and Act of 1844, 386–428; and *see* "History and Principles of Banking," "Inquiry into the Pressure on the Money Market," "Currency and Banking," Notes, originally called "Goldsmith's notes."
Cromwell, more perplexed than enlightened, 15.
Currency and Banking, 291–356. Effect produced on the prices of commodities by fluctuations in the currency investigated, 292–8; in what way an extension or contraction of the currency operates on the foreign exchanges, 298–300; effect produced on the currency by the substitution of paper money, 300–4; ought deposits in the Bank of England to be regarded as money? and do they perform the functions of currency, and to what extent? 304; whether there is any difference between the deposits in the Bank of England, and those in other banks, with regard to their efficiency in performing the functions of currency? whether the rise or fall of the deposits is any criterion by which to judge of the increased or diminished issues of the bank? 306; whether the Bank of England ought to make use of her deposits? 307; what effect the deposits in the Bank of England have upon the prices of commodities? 308; ought bills of exchange to be regarded as currency? 310; what plans have been proposed for the administration of the currency? 313; asserted departures from rules laid down in 1832, 314–17; what plans have been proposed for the administration of the currency? Mr. Horsley Palmer's, 313; plan of making the amount of the circulation fluctuate in exact correspondence with the amount of gold in the Bank of England, 318; objections to, 319; Mr. Loyd's plan, 324; Mr. Tooke's plan, 344; Mr. Gilbart's argument against the doctrine regulating the currency by the foreign exchanges, 345; Mr. Bailey's plan, 350.
Current accounts in Scotland, 435.
Current value of gold coin and Bank of England notes, Act for maintenance of, 45.

Dead loans, money advanced on, contrary to all sound principles of banking, 149.
Dead circulation of the Bank of England, 274.
"Dead Weight," the, 51.
Dealers and producers, prices and speculations, 115.
Dealing in gold and silver bullion implies possession of considerable wealth, 19.
Debt of 14,686,800*l.* due by the public to the Bank of England, 73. *See* Advances to government.
Delphi, temple of, the great bank, or depository of treasure, of Greece, 3.
Deposit, banks of, 93; accounts, or drawing accounts, at Bank of England, 100; banks of, encourage trade and wealth in their several districts, 106.
Deposit receipts in banks of Scotland, 436.
Diminished amount of notes in circulation effected by railways, uniform penny post, 1840, and registry of letters, 1841, 394.
Directors of the Bank of England, election of, and qualifications for, 76.
Dissatisfaction of the country bankers at the establishment of branches of the Bank of England, 57 *et seq.*
Discount, banks of, 118; rates of, 133–46; effects of, on circulation, 140.
Distress caused by King Charles II. shutting up the exchequer, 22; great commercial, 1811, 44.
Distress caused by contraction of the currency, 263; seasons of, and reports circulated, 278.
Dollars, first introduction of, 41.
Domestic demand for gold, and contraction of the currency, 321.
Drapers of Barcelona and the business of banking, 8.
Dutch fleet in the Thames, and first "run" in the history of banking, 21.
Duties imposed on notes of country bankers, 41–2–6.

Economy of bank notes, 396, and see *note*, p. 397.
Effects of discounts on the circulation, 140.
Encumbered Estates Bill in Ireland favourable to employment of capital in Ireland; its beneficial effect by breaking down large estates and placing them in the hands of persons in a condition to improve them, 382.
England, Bank of. *See* Bank.
England the place of settlement for the whole world, 280.
Establishment of a bank indicates the security of private property, 159; some degree of internal trade; that the practice has been introduced of dealing upon credit, 161; that capital has considerably accumulated, 162; that it is not unjust to take interest for the loan of money; of new, shows that trade, capital, and wealth of a place are on the increase, 163; of Bank of Ireland, 175; and registry of private banks in Ireland, 1799, 175, *et seq.*
Exchange of gold and silver coins, 10.
Exchangers, Royal, 10–12.
Exchanges, foreign, the, 118, 259 *et seq.*, 391—*see* Currency, Gold, Money; between Ireland and England, and Report of Committee of House of Commons thereon, 281–5; between bankers and the circulation of notes, 108; in Scotland, system of, 438. *See* Clearing-house.
Exchequer shut up by Charles II., 21.
Exchequer Bills, balances paid by banks in Scotland in their exchange of notes, 438.
Exclusive privileges of Bank of England, 354.
Exportation of gold and silver coin repealed, and coin allowed to be exported or melted without any penalty. *See* Peel's Act, 1819, 47–8.

First stone laid of Bank of England in Threadneedle Street, 1732, 30.
Florence, its money transactions and commercial prosperity, 7.
Fluctuations of prices a great evil, 262; of country circulation since passing of Act of 1844, 397 *et seq.*; of Scotland do not correspond with those of Ireland, 446.
Foreign exchanges, how affected by notes in circulation, 117; the doctrine of regulating the currency by, altogether of modern date, 259; and issues of country bankers, 391; loans, list of, contracted for in England, chiefly in the years 1822, 1823, 1824, 1825, 52. *See* Exchanges, Foreign Currency, &c.
Foreign securities as a resource for the Bank of England to have recourse to, and deemed equivalent to a large amount of bullion, with the advantage of deriving interest upon it, 348.
Forgery, first on record, of a Bank of England note, 34; legal decision as to repayment by banks in case of, 35; Acts relative to, 40, 48; detention by the Bank of notes manifesting evidences of, and return thereof, 47.
Fortunate discovery by Bank of England of 1*l.* notes at the crisis of 1825 on their gold failing, 53–4.

Four per Cents. (old), reduction of, 51; (new), reduction of, 59–60.
Fraud on Bank of England, and loss of 300,000*l.*, 41.
Free trade in banking, 341, 352; in America, controverted, 339.

Genoa, commerce of, 7; the bank of, 8; called the Chamber of St. George, 9.
Gold, first coinage of, 10; Lord Stanhope's Act, 45; milling, 47; purchasing price of, 77; the only money between nations, and the resulting effects of its exportation and importation as to issue and withdrawal of notes, 263 *et seq.*; discovery of, in California and Australia, 381; substitution of paper money for, 300; an article of trade, 301; as bullion and as coin, 2, 313. *See* Money, Currency.
Goldsmiths of London leave off goldsmithry and turn exchangers of money, 12; become money borrowers and money lenders, 18; and bankers, 19–20.
Goldsmiths' notes described; country bank notes originally so termed, 386; superseded 1694 by notes of Bank of England, 387.
Government and Bank of England, the close connexion between commenced 1718, 28; advances made to, by Bank of England, 28, 30, 33, 35, 36, 40, 50; and charge termed "The Dead Weight," 51.
Government of Bank of England, 76.
Greece, bankers in, 3.
Guineas, 49; hoarded in Ireland, 191.

Hibernian Joint-stock Bank, formation of, 193; paper tokens issued by, 220.
History, and disappointments in the search for instruction, 1.
History of the Bank of England, 23–77.
History of banking in Ireland, 159–247; previous to the establishment of the Bank of Ireland, 160–173; from the establishment of the Bank of Ireland to the establishment of the Provincial Bank of Ireland, 173–196; from the establishment of the Provincial Bank of Ireland to the present time, 196–235.
History and principles of banking, 1–156.

Increase of her issues at any time by Bank of England on purchase of Government stock, India bonds, or Exchequer bills, an advantage not available by country banks, 334.
Importation and exportation of gold, effects epitomized, 273.
Inquiry into the causes of the pressure on the money market during the year 1839, containing theoretical and practical illustrations applicable to pressures at any period, 252–288.
Inscription on pedestal of statue of King William the Third in Bank of England, 31.
Insurances and Annuities Act, 27 and 28 Vict. c. 43—*note*, 156.
Interest of money at Athens, 5; prejudice against taking for the loan of money among ancient agricultural nations, 7; severe restraints respecting, during the middle ages; stigmatized with the name of usury; Mosaic law respecting, 13; prohibited in England by Edward the Confessor; permitted 10th Richard I., 14; made legal 1546, 14–18; exorbitant demands by the Jews, and rate sanctioned, 14–15; by Lombards, 16; prohibitions of in Scripture absurdly applied by Fathers of the Church to the payment of legal interest, and condemned as a sin, 16; schoolmen, misled by Aristotle, adopt same error, 16, 133.
Interest allowed by banks in Scotland, 435; reduction of, in the years preceding the panics, 256.
Investments in the public funds, not strictly an operation of banking, 149.
Ireland, history of banking in, 159–235.
Israelites, and interest under Mosaic law, 13–14.
Issue of Notes, and the Circulation, 35, 37, 39, 47, 49, 55, 56, 79, 124, 413–14, 107, *et seq.*

Jews, remarkable for their industry and frugality, cunning and extortion, 14; usurious rates of interest demanded by, 14, 15, 17; expulsion of, from England 1290, and readmission, in time of Oliver Cromwell, 15; or Lombards, invent bills of exchange, 119.
Joint-stock bank, original project of one, ascribed to Xenophon, 5; history of, 83; possess greater security than private banks, 84; less liable to runs, 85; advantages from prudence in management, 87, 430.

Keeping a banker formerly the privilege of the few, now practice of the many, and operations consequent therefrom in regard to cheques, notes, and transfers, 396.
King, Lord, a notice from, to his tenantry, for payment of rent in the real intrinsic value of the legal gold coin of the realm, or in alternative modes suggested to in-

sure the equivalent value thereof, the same giving rise to 51 Geo. III. c. 127, or Lord Stanhope's Act (which see), 45.

Lancaster, peculiarity of the circulation of, 388.
Laws of the currency as exemplified in the circulation of country bank notes in England since the passing of the Act of 1844, 386–428.
Laws of the currency in Ireland, as exemplified in the changes that have taken place in the amount of bank notes in circulation in Ireland since the passing of the Act of 1845 to 1852, 359–385.
Laws of the currency in Scotland, 429.
Legitimate operations of banking have the power of placing speculation under some degree of restraint, 111.
Liberality of bank, 50, 54.
Liverpool, the most speculative place in England, 110.
Loan banks, mercantile and charitable, amongst the Romans, 6; and in later times, 147–152, 173.
Loans, mode in which the bankers formerly transacted them with the Sovereign, 21; by bankers, and advances by, are practically the same in what way soever they may be made, 148.
Lombards, or Italian merchants, from the four republics of Genoa, Lucca, Florence, and Venice, and their settlement in England, 16.
Lombard or loan bank in Russia, 150.
London banks, 77; have long since ceased to be banks of circulation; are banks of deposit, discount, and agency, 78.
Lottery, Three per Cents stock, 1726, created by means of a, 30.
Lumbers, 151.

Mail, robbery of notes from, and liability of Bank of England to pay, value having been given for same, 34.
Malahide bank, promissory note of, 186.
Management of banks in Scotland require less skill than demanded by those in England, 435.
Management of the public debt, reduction of allowance by Government to Bank of England for, 36, 42.
Medici, bank of, 7.
Medici, Cosmo di, the wealthiest merchant ever known in Europe, 7.
Melting gold and silver coins. *See* Peel's bill, 47, 48; also loss sustained by Bank of England as to silver, during the year 1831, 60.
Metallic circulation, advantages of, advocated, 264; and paper currency, as substitute for, 301–4. *See* Notes, Gold, Currency, Money.
Mint, gold and silver coined at, 1821, 49.
Mitford on banks in Greece, 3—5.
Model bank, the, for modern banks, that of Amsterdam, 9.
Modifications of Act of 1844 proposed, 417; for the removal of certain inconveniences, 417–18.
Money, substitutes for, 2; changers of, in the Temple, 2; changing, 10; lending, as part of the business of banking, 13; and also borrowing, 18; remittance of, 101.
Money, gold the only, between nations, 263; and prices, on exportation of, 298; rate of interest of, and the foreign exchanges, 298; paper and metallic, 300–1; ought deposits to be regarded as? 304; meaning of the word, and ambiguity thereof, 304. *See* Bullion, Coin, Currency, Gold.
Moneyed class, the, Mr. Ricardo on, 125.
Monthly fluctuations of the circulation in Bank of England, the country banks, the banks of Scotland, and the banks of Ireland, 397–9.
Monte de Piété at Paris, 150.
Montes Pietates, or charitable loan banks at Rome, ancient and modern, 150; Perugia, at Naples, Paris, Russia, Ireland, 149–52.
Mosaic law, and interest, 13, 14.

National debt, partial reduction of, 34.
Nation's pride, defined, 382.
National Bank of Ireland (now known as the National Bank), formation of, 235.
Nature and origin of bills of exchange, 119.
"New-fashioned bankers," or goldsmiths, 19, 20, 77.
Nobles, gold, half, and farthing, issue of in Edward III.'s reign, 10.
Non-issuing banks defined, 409.
Notaries, public, 128–133.
Notes, bank, legally defined, 387; goldsmiths', 18; stolen, forged, 34; issue by Bank of England of, 15*l.* and 10*l.*, 35; also of 5*l.*, 37, and of 1*l.* and 2*l.*, 39; Bank of England pay off those under 5*l.*, 49; circulation of country bank notes in England since the passing of the Act of 1844, 386–428; in circulation in Ireland; annual productiveness of the harvest affects the amount of notes in circulation, 362; consequences of a bad harvest in relation thereto, 363; a reduction of the quantities produced may be caused by a re-

duction in the number of producers, and this would occasion a less demand for bank-notes, 364; amount of notes that circulate in a country will also be affected by the quantity of commodities exported and imported, 365; considered further, 366; annual variations in the circulation of, during several years, 367; monthly variations in the amount of in notes of 5*l.* and upwards, and notes under 5*l.*, 372; monthly must depend upon the quantity of produce brought to market within the month; important evidence of Mr. Murray before Committee on banks of issue, 373; confirmed by Mr. Gilbart, 374; total of, and distribution thereof over the whole surface of Ireland, 375; total number of banks issuing their own notes in the year 1852; reason of province of Ulster having so large a proportionate circulation, 376; suppression of, for twenty-five, thirty, and thirty-one shillings, by Act of 1845, 377; Belfast banks, 378; gold and silver kept by banks, 379–81; discovery of gold in California and Australia, and practical effects on operations upon banks in Ireland, 381; issue of, and Act of 1845, 383; circulation of, in Scotland, 429.

O'Connell urges runs upon the banks of Ireland, 228.
Olympia, temple of, repository of treasure, 3.
One bank of issue, establishment of; propositions advanced in favour of, and probable results as destructive to prosperity of the nation, 112, 328 *et seq.*
One pound notes, first issue of, by Bank of England and country banks, 1779, 39; paid off by Bank of England, 1821, 49. *See* Issue of Notes.
O'Reyley's money, and Act so called, 163.
Over-issue of notes, 54; checks operating against, 107. *See* Circulation, Speculation.
Overstone, Lord; his sole reason in favour of one bank of issue, 336.
Oxford, scholars at, and the Jews in reign of Henry III., 15.

Panics of 1825, 1836, 1839, and the country circulation, 388–92; propositions made by Government for prevention of panics, 55.
Paper money, effect produced on the currency by, 300.
Partners, greater security to a bank from having many, than from having a few, 85, 430.
Peel's bill, 47–8.
Penalties on country bankers for excess in issue, 395; accidental or not, 417.
Permanent, or dead loans; money advanced on, contrary to all sound principles of banking, 149.
Persecution of the Jews, 15.
Petition to the farmers, traders, and others in Waterford, of Messieurs Les Billets de Banque, 229.
Prejudice against taking interest for the loan of money among ancient agricultural nations, 7.
Pressure on the money market during the year 1839; an inquiry into the causes of, 251–288.
Price, purchasing, of gold and silver, 77.
Prices, rise and fall of, 273, 292.
Producers and consumers, merchants and dealers, 109, 115.
Profits, and diminution of, in Bank of England, in certain noticeable years, 62–5.
Profits of a banker, 94.
Projects, number and capitals in the year 1824 and 1825, 51.
Promissory notes, returns of issue of, required by 3 & 4 William IV., c. 83, 79; circulation of, in Ireland; report of Select Committee of the House of Commons, 205–7; summary of evidence, 207–12; and Bills of Exchange Act, 9 Geo. IV., c. 24, 221.
Prosperity of Ireland, from the administration of her banking institutions, prophesied by Mr. Gilbart, 383.
Provincial Bank of Ireland, formation of, 197–8; important Act obtained by directors of, relative to joint-stock banks, 198–9; exchange of notes between, and Bank of Ireland, 200; memorial to Government by, respecting notes under 5*l.*, 201–5; first report to proprietors by directors of, 212–20; first run for gold on, 222; action against, to prevent notes of, being paid in Dublin, 224–5.

Qualifications of Bank of England directors, 76.

Receipts issued by the goldsmiths for money lodged in their hands, circulating, were the origin of bank-notes, 18.
Rectifying the exchanges, 281, *ante et post.*
Remittance, banks of, origin of, 101; of money by means of agencies, branches, circulation of notes, 103; encourage trade, 105–6.
Restoration of subscription raised in the year 1697, by the bank, 27.

Restriction Bank, Act, 39; and new Act, 41.
Returns of individual banks under Stamp Act less in fourth week than three preceding, 395.
Rise of banking in England, 10.
Robberies by Charles I. and Charles II. of merchants' money, 18, 21.
Rose, Right, Hon. George, on Savings Banks, 153–5.
Rothschilds, the, on the foreign exchanges, 280–1; on the exchanges being so uniformly in favour of England; on Bank of England's power in regulating the exchanges, 281, 347–8.
Royal borrowings, 17, 18, 21.
Royal exchangers, appointment of, by Edward III., 10; discontinuance of office in Henry VIII.'s reign; re-establishment by Charles I., 1627, 11; final cessation of, 13.
Royal reply to City magnates on a financial appeal, 13.
Runs, the first on record in the history of banking, 21; definition of a, 85; joint stock less liable to, than any other bank, 85; cause of a, 86–7; on Irish banks, 1831, 1833; on Savings Bank 1838; an evil that might result to a sole bank of issue, 336; for gold in Ireland—on Provincial Bank in 1828, 222; on banks at Waterford, 1830, 228; the first the Bank of Ireland and the savings banks were ever exposed to, 229; further, in South of Ireland, 1833, 233; letter by Mr. Gilbart on, 222; article on, by same, 229; letter by Mr. O'Connell, urging, 228; protest against, by merchants and others, 231–2.
Running accounts in Scotland, 435.

Sacrifice of money, some, by the Bank would give her great power in regulating the exchanges; others make the loss, the Bank the profit, 281.
Savings banks, description, origin, and establishment of, 152–6; run on in 1838, 336.
Scotland, laws of the currency in, 429 *et seq.*
Silver bank at Malahide, in Ireland, promissory note of the, 186, 191; tokens, 45.
Silver coins, 10, 49; melting, and loss sustained by Bank of England in 1831, 60, 301–2.
Slow progress of banking in Ireland partly accounted for, 163 *et ante.*
Small notes, or those under 5*l.*, Acts relating to, returns, remarks, 47, 413–14–15, 438, 441; humorous account of the issue of in Ireland, 187; summary of evidence given before both Houses of Parliament as to the effect of abolishing, 207.
"Special circumstances" and the Bank of England; departure from the rule laid down in 1832, 314.
Sole privilege of issuing notes by Bank of England, and separation of the currency department of Bank of England from the other branches of her business; propositions for, 285–6.
"Sound principle" the only, as advanced, on which the currency can be managed, questioned, 262.
South Sea bubble, 28.
Sovereigns, coinage of, in lieu of guineas, 49.
Spanish dollars, circulation of in Ireland, 190, 192.
Speculation, defined, 109; illustrated from Holy Writ. 110; in Liverpool, 110; banking operations undeniably aid, and yet can restrain to some degree, 111; issue of notes, and, 112; wild spirit of, and consequent panics attributed to the country circulation, 388–90; refutations advanced by country bankers against charges of; enactments, 388, 391–3.
Stamp duties, 41–2–6, 56, 58, 185, 222, 225, 395, 447.
Stanhope, Lord, his Act to prevent current coin of the realm being paid or accepted for a greater value than the current value of such coin, and preventing any note or bill of Bank of England from being received for any smaller sum than the sum specified, 45; extended to Ireland, 193.
Statue of King William the Third in Bank of England, 31.
Steelyard Company, a kind of bank to our kings, 17.
Stolen notes of Bank of England in mail and highway robberies, cause issue of post bills, 33, 34, 35.
Subscriptions for Government loans first received at the Bank, 28.
Suggestions the voice of experience would address to the directors in the Bank parlour upon their theoretical views of the currency, 286–7.
Suspension of cash payments by Bank of England 1797, 37; by Bank of Ireland, 1798, 179.

Tally payments in various parts of Ireland, 191.
Temples formerly depositories of wealth, 3.

Tenantry, Lord King and his, in relation to payment of rent in good and lawful money of Great Britain, 45.
Theory, defined as "a doctrine that has never been tried by the test of experiment." *See* regulation of the currency by the foreign exchanges, 279 *ante, et seq.*
Theoretical notions relative to the currency disclaimed, and experience advocated, 286.
Three per Cents. stock, 1726, created by means of the lottery, 30; Reduced, 34; and Three and a half Reduced, 51.
Tokens, leaden, 10; Spanish dollars stamped as, by National Bank (1810), 190; Bank; Silver; Copper, 192; and Paper, 190, 220.
Toleration of the Jews, and Oliver Cromwell, 15.
Tooke, Mr., on banking system, 288; on prices and circulation, 291 *et seq.*
Torrens, Mr., on currency and banking, 291 *et seq.*
Tower of London formerly used as a bank for merchants, 18.
Trade of a banker, in what it differs from other trades, 93.
Transmission of money, 22, 101, 108.
Treasure deposited for safety in their temples by the ancients, 3; in Tower by merchants of London, 18.
Trust, an essential, as between banker and customer, 161.

Uniformity and law as applied to banking, defined as "conformity in the recurrence of certain events," 429.
Unsoundness of the present system of exchanges briefly recapitulated, 273–287. *See* Circulation, Money, Panics, Pressures.
Usury, term invidiously applied to the lending of money on interest, 14; instances of, by the Jews, 15, 17; by the Lombards, 16–17; limitation of meaning of, in later times, 18.

Value of coin and bank notes effectually provided for. *See* Lord Stanhope's Act, 45; given for bank notes stolen from mail, recovery of from the Bank, 34. *See* Currency, Gold, Money.
Venice, commerce of, 7; the bank of, established 1157, 8.

Waterford Literary and Scientific Institution, formation of; managers of banks very proper persons to take active part in establishment of such associations, and when of literary attainments especially adapted for office of honorary secretary; steps taken to form the, 236–8; resolutions, 239; lectures and essays delivered at, 240; syllabus of a course, by Thomas Wyse, Esq., M.P., 242; and by James William Gilbart, Esq., 244.
Weight of five hundred and twelve bank 10*l.* notes equal to one pound, 35.
"Wisdom best learnt in the school of adversity," dictum of Lord Overstone, 356.

Xenophon published a treatise upon the Athenian revenue; originated by his suggestions the establishment of a joint-stock bank, 5.

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